

ProCredit Group Impact Report

2017



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This Impact Report covers the period from 1 January to 31 December 2017.

It follows the guidelines of the Global Reporting Initiative (GRI) and has been prepared in accordance with the "Core" option of the current version of the GRI Standards.

MESSAGE FROM THE MANAGEMENT



Dear Reader,

ProCredit is a development-oriented group of banks, so we welcome this opportunity to present our first Impact Report, produced in line with the exacting international GRI standards. In our complementary [> Annual Report 2017](#), you can find the details of our successful year in terms of business and financial results. In this Impact Report, we provide a detailed outline of our sustainability efforts in 2017. We see this as another milestone in our efforts to communicate our impact in a transparent and comprehensive way.

Together with our closest stakeholders – our staff, shareholders and clients – we have identified the sustainability topics that are most relevant. We have structured this report around three main areas of positive impact: our business model, our approach to clients and our approach to staff.

Our **business model** ([> page 18](#)) is focused on the SMEs which play such a vital role for sustainable development in the emerging

markets we work in. In 2017, we have not only expanded our SME loan portfolio by 18%, providing much needed financing for SME investments; we have also supported the modernisation of transaction banking, with 99.3% of transactions now occurring via automated channels. We also believe our robust approach to corporate governance, compliance and the prevention of financial crime contributes to a transparent financial sector, which is so important for the volatile markets in which we work.

Commitment to environmental protection is an integral part of our identity. Our systematic approach to environmental management aims to: enhance our internal resource efficiency; help mitigate negative environmental and social impacts of our clients' activities; and finance green investments. As of end-2017, already 12.6% of the group's loan portfolio consisted of "Green" loans.

Our **approach to clients** ([> page 38](#)) is also special. We aspire to long-term, stable partnerships which bring real benefit to our clients. Here we are particularly proud of our record

in terms of prudent credit risk management, which incorporates environmental and social impact risks as well as minimising the risk of overindebtedness, thereby supporting the long-term success of our clients. The already high quality of our loan portfolio saw further improvement over 2017.

The success of our business strategy depends on the particular skills and efforts of our employees. We outline in detail our **approach to staff** ([> page 52](#)), which stands out in the local context of our banks. We invest in a transparent recruitment process to select people who share our ethical values, and we invest in life-long learning for our staff. In 2017 each staff member enjoyed on average 17.8 days of training, many of which were delivered at our ProCredit Academy in Germany. Cultural and gender diversity is a reality, which is a natural consequence of our values-based approach to recruitment and staff development.

We are confident that we have made good progress in 2017, and we welcome external recognition for our efforts. For example, we

are pleased that in 2017 we became a member of the London Social Stock Exchange and that MSCI's ESG report upgraded ProCredit's rating to AA. We continue to set ourselves ambitious goals for 2018 and beyond.

Many people have been involved in producing this report and all our staff have contributed to the impacts described herein. Many thanks to all of you. A special note of thanks goes to IPC, who have played such a valuable role in helping to develop our environmental management system and to produce this report.

We would also like to thank our clients, shareholders and business partners, for the trust you have placed in us, and we hope that you will continue to accompany us as the ProCredit group advances along its chosen path.

We trust you will enjoy reading this report.



Borislav Kostadinov Sandrine Massiani Dr. Gabriel Schor

THE PROCREDIT GROUP AT A GLANCE

ProCredit is an international group of development-oriented commercial banks with a geographical focus on South Eastern and Eastern Europe and a structural emphasis on small and medium-sized enterprises (SMEs). We see access to responsible finance as vital to the stable and healthy growth of SMEs, which are the backbone of economic development and which employ the majority of the population in our countries of operation. Moreover, the owners of SMEs (or "Mittelstand") form an emerging middle class, which often supports the stable development of a society.

Since its origins more than 30 years ago, the ProCredit group has been a pioneer in development finance. The focus of our banks has shifted over the years as the markets in which we operate have evolved. However, the guiding principles underlying the financial services we provide have remained constant, and complement our conviction that running commercially successful banks can go hand in hand with ethical principles and supporting sustainable development.

Our commercial ambitions are rooted in our commitment to grow our business and deliver attractive, stable returns to our shareholders over the long term. Our development ambitions are rooted in our desire to support the sustainable growth of our SME clients, for example by striving to enable them to make long-term investments, particularly in efficient, environmentally sound practices; or by supporting the formalisation and transparency of their operations and integration into Western banking and trading systems. We believe that the way we work with our clients and our staff is central to achieving these ambitions. We aim to establish long-term relationships built on trust and responsibility. We want our carefully selected, well-trained staff to develop professionally and

personally. We have a transparent remuneration framework that does not use bonuses. ProCredit banks operate to high standards, particularly with regard to risk management, countering corruption and financial crime, and reducing our ecological footprint.

Our client offer

The cornerstone of ProCredit's approach to SME clients is the "Hausbank" concept, a German term denoting our aim to be a partner for all their banking operations. We aim to develop long-lasting banking relationships based on understanding our clients' needs and providing our services in a targeted, responsible and efficient manner. We are implementing a complementary, direct bank-oriented private client strategy, built around an attractive package of services supported by modern electronic channels.

We aim to enable our clients to bank with us through user-friendly and efficient direct banking channels while having an optimised network of strategically located outlets for advisory services (Service Points) and 24/7 Zones. This allows our BCAs and Client Advisers (CAs) to fully focus on providing customised services. We are also putting additional focus on our contact centres, providing competent advice to all clients via telephone or email.

Services for SMEs:

Target clients:

We aim to work with innovative, forward-looking companies with the capacity to create jobs and sustain economic development. We focus on agriculture and local manufacturing sectors, and work particularly with SMEs investing in green finance and energy efficiency. We pay special attention to business customers who are regionally active in our countries of operation. Our business clients are characterised by their formal or increasingly formalised structures, a sustainable business model and their need for banking services beyond mere credit.

Services:

Our "Hausbank" concept means we offer a comprehensive range of banking services, covering financing, documentary business, payment and deposit services that are flexibly and individually tailored to the needs of our clients. Our Business Client Advisers (BCAs) are specially trained in responsible, client advisory competence.

We put emphasis on not over-indebting our clients. Prudent credit risk management is central to a long-term relationship. The low default rates we aim to achieve on SME loans are in the interest of our clients and the financial performance of the group.

Services for private individuals:

Target clients:

We aim to actively address middle-income private clients who have the capacity to save and the willingness to do their banking through digital channels and our modern 24/7 Zones.

Services:

ProCredit offers a complete range of straightforward services covering transactions, savings and deposits, as well as housing and small investment loans. What is special about our approach is the flexibility and accessibility of our services through our new, modern e-Banking platform ("ProCredit Bank Direct"). The portal enables private clients to carry out transactions on their current, savings and term deposit accounts and even manage their housing loans in comfort via the internet.

Our organisation

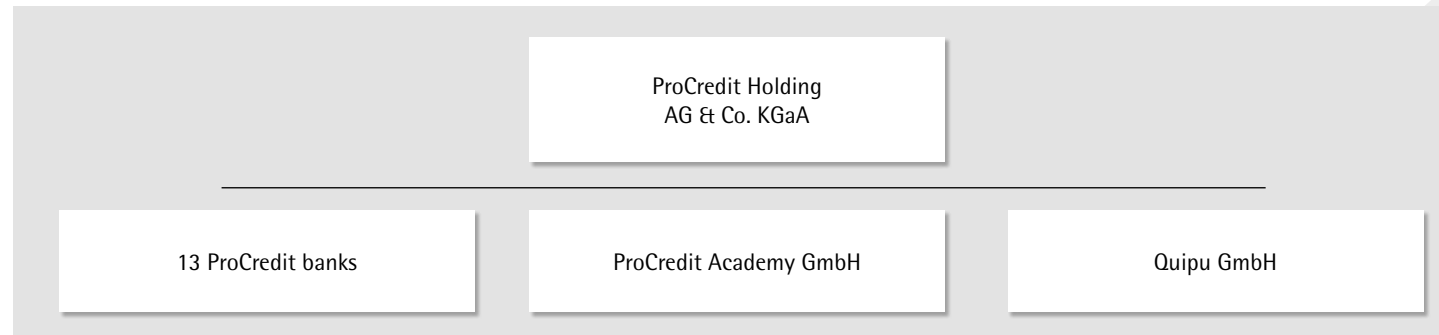
The parent company of the group, ProCredit Holding AG & Co. KGaA, is headquartered in Frankfurt, Germany, and controls the majority of shares in all ProCredit institutions worldwide. ProCredit Holding has been licensed by the German Federal Financial Supervisory Authority (BaFin) as the "superordinated company" of the group.

The main functions of ProCredit Holding vis-à-vis its subsidiaries are the provision of equity and debt financing, strategic guidance and supervision. It is responsible for ensuring that all reporting, risk management and compliance obligations required under German banking regulations are met, particularly in relation to risk management and the prevention of money laundering, fraud and the financing of terrorism. To this end, ProCredit Holding sets the overall

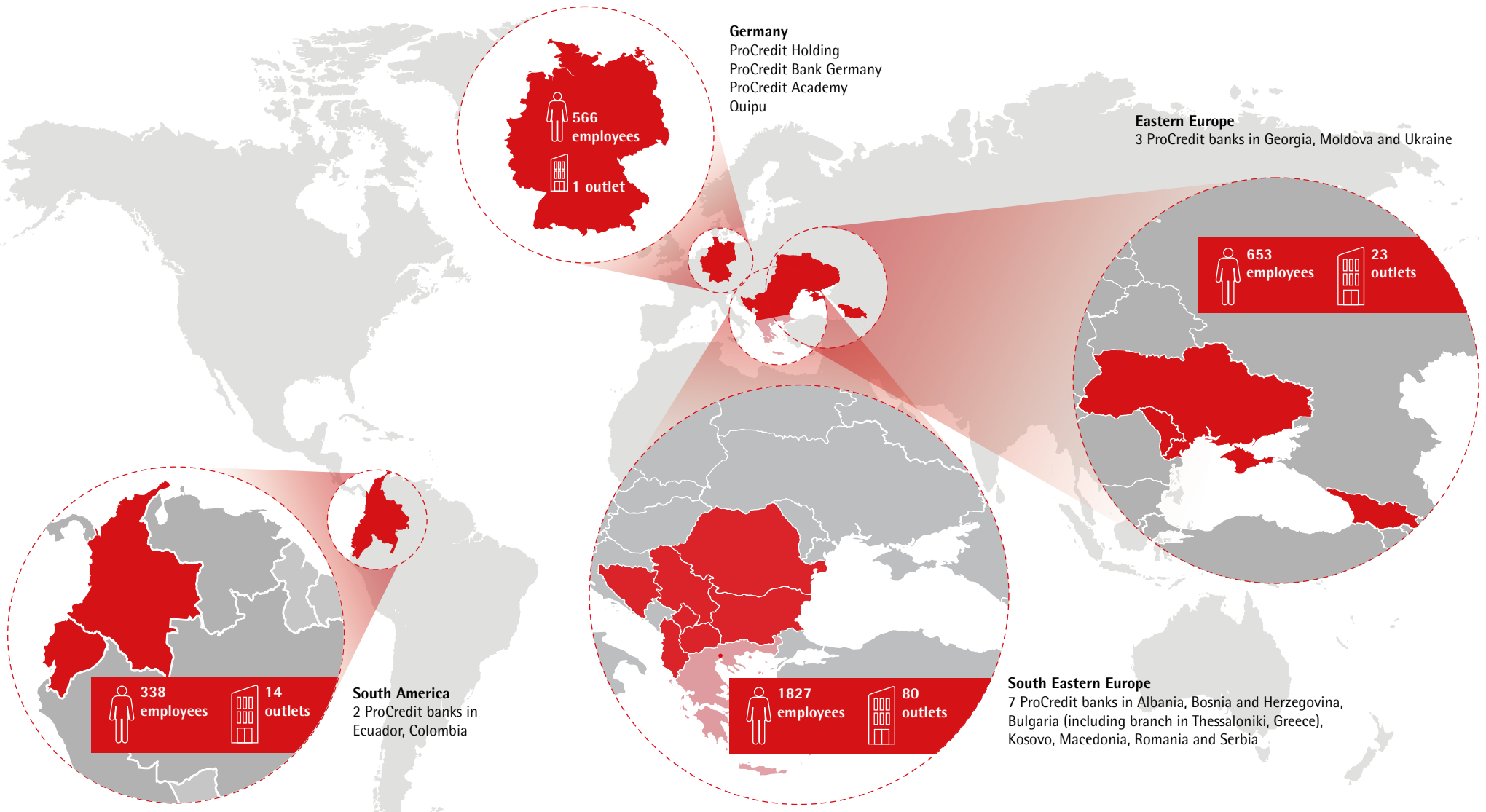
policy guidelines and standards regarding all key areas of banking operations and it ensures that all ProCredit institutions have appropriate organisational structures and procedures in place that reflect these policies. Specifically, it ensures that controlling, risk management and compliance systems which are in line with the principles and standards set forth in BaFin's policy document, "Minimum Requirements for Risk Management", commonly referred to as "MaRisk", are in place across the group.

At the end of 2017, the main institutions comprising the ProCredit group are the 13 legally independent banks, ProCredit Holding, the ProCredit Academy in Fürth, Germany, and the IT subsidiary Quipu.

Structure of the ProCredit group



The regions and countries in which ProCredit banks are active:



Number of employees include management board members and staff in unconsolidated entities. For more information on the entities included in this report see > page 91.

Some recent developments

We are nearing the completion of our strategic initiative to withdraw from the business of working with unwieldy numbers of very small borrowers and savers and to sharpen our business profile as a modern SME bank. This was accompanied by a number of far-reaching changes for the group, including a strong reduction in the number of staff and in the number of Branches and Service Points. At the same time, we have withdrawn from markets with less potential for SME business growth: specifically, we sold our banks in Bolivia in 2016 and in El Salvador and Nicaragua in 2017.

We have also completed the implementation of the innovative 24/7 Zones in all our Service Points and the rollout of our group-wide direct banking service offer. We believe this provides clients with modern and comfortable access to our banking services at their convenience. The digitalisation of services and automation of transactions, supported by our IT subsidiary Quipu, is central to our wider strategy to modernise and increase the efficiency of our operations. The group has been able to reduce cash and other routine front desk operations to low levels.

We have continued to invest in building the capacities of our staff in order to further

improve efficiency and service quality. Today, all employees speak English, the lingua franca of our group, and new staff go through a six-month onboarding process. As of December 2017, a total of 550 employees had graduated from the ProCredit Banker and Management Academies or are currently participating in one of the academy programmes.

While making these operational changes, we have continued to deliver consistent business and financial results. The loan portfolio of our core SMEs grew by 17.8% in 2017. Our "green" loan portfolio grew by 47.8% and exceeded our target of 10% of the total loan portfolio. The group's cost/income ratio improved by 2.7 percentage points to 72.4% for the second half of 2017, down from 75.1% in the first half of 2017.

ProCredit Holding listed its shares on the Prime Standard segment of the Frankfurt Stock Exchange in December 2016. It successfully raised additional capital with gross proceeds of EUR 61 million (10% of authorised capital) in February 2018. ProCredit Holding places central importance on the group's ability to underpin its operations and growth plans with adequate capital.

We have also maintained our focus on explicit "sustainability" initiatives. In May 2017, ProCredit Holding became a member of the London-based Social Stock Exchange (SSX).

In November 2017, following an update issued by oekom research AG, the rating of ProCredit Holding AG & Co KGaA was upgraded by two points to B-, confirming the group's existing Prime status. At the time of this evaluation, ProCredit Holding was one of the three best-placed companies (i.e. Industry Leaders) in the Sustainable Finance segment. In December 2017, MSCI's ESG report upgraded ProCredit Holding's rating from A to AA. ProCredit thereby ranks among the industry leaders in the top 15% of companies rated by MSCI in the banking industry worldwide, surpassing the overall ESG rating of its 10 largest industry peers.



Economic, environmental and social ratings and membership:

- Certified environmental management system under ISO 14001 and EMAS



- Membership in the Social Stock Exchange, London



- oekom research rating upgrade to B-, confirming the Prime status of the group

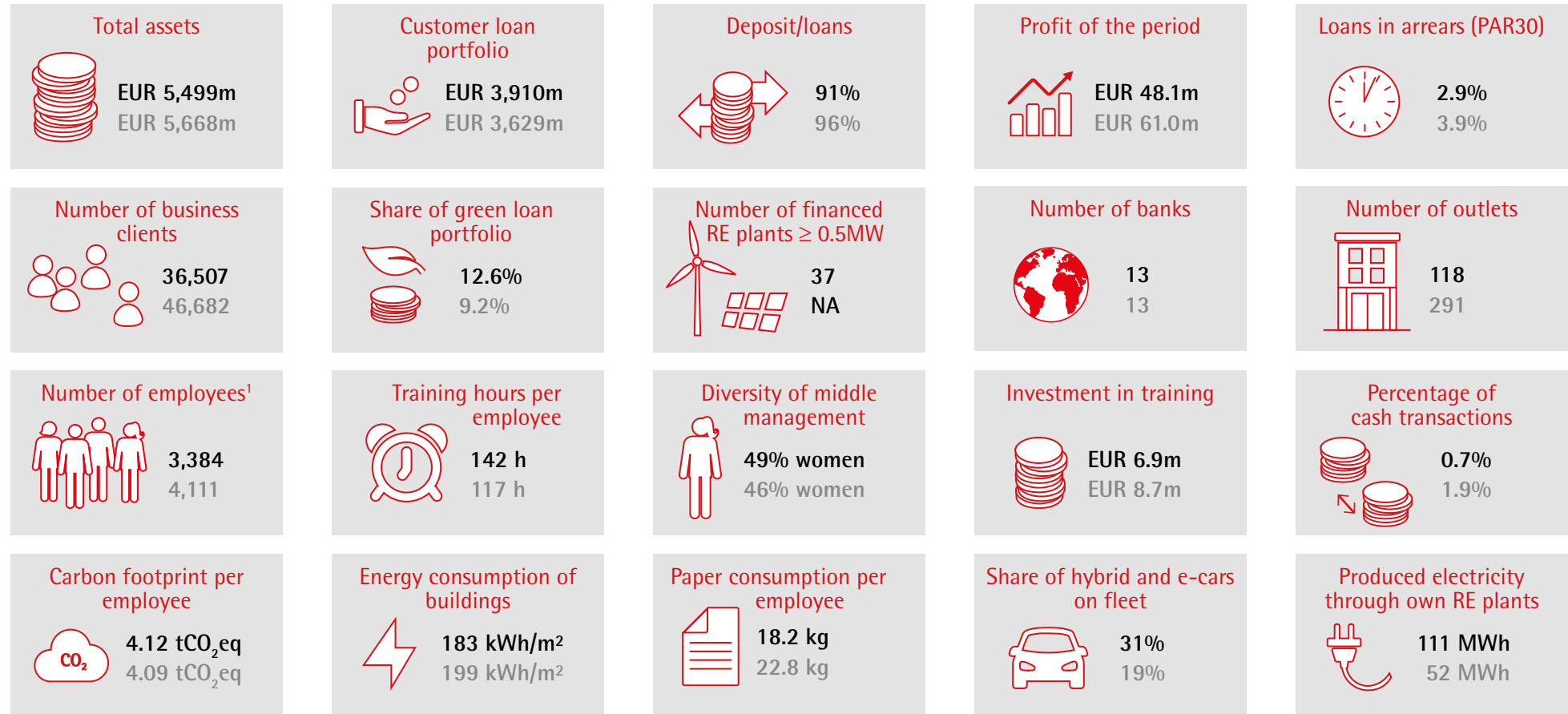


- MSCI ESG Rating upgrade to AA in December 2017

- Fitch Ratings BBB stable



KEY FIGURES AND ACHIEVEMENTS

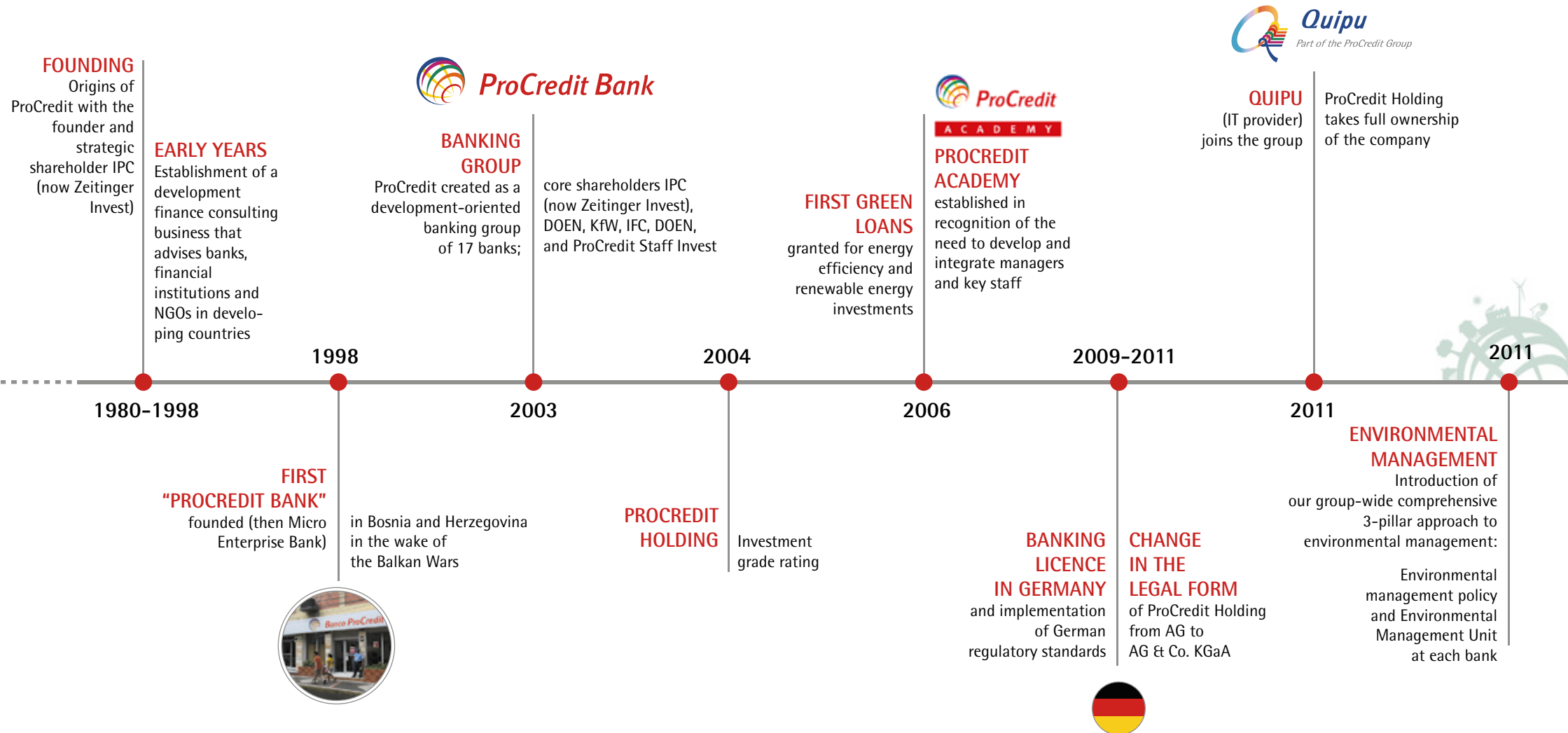


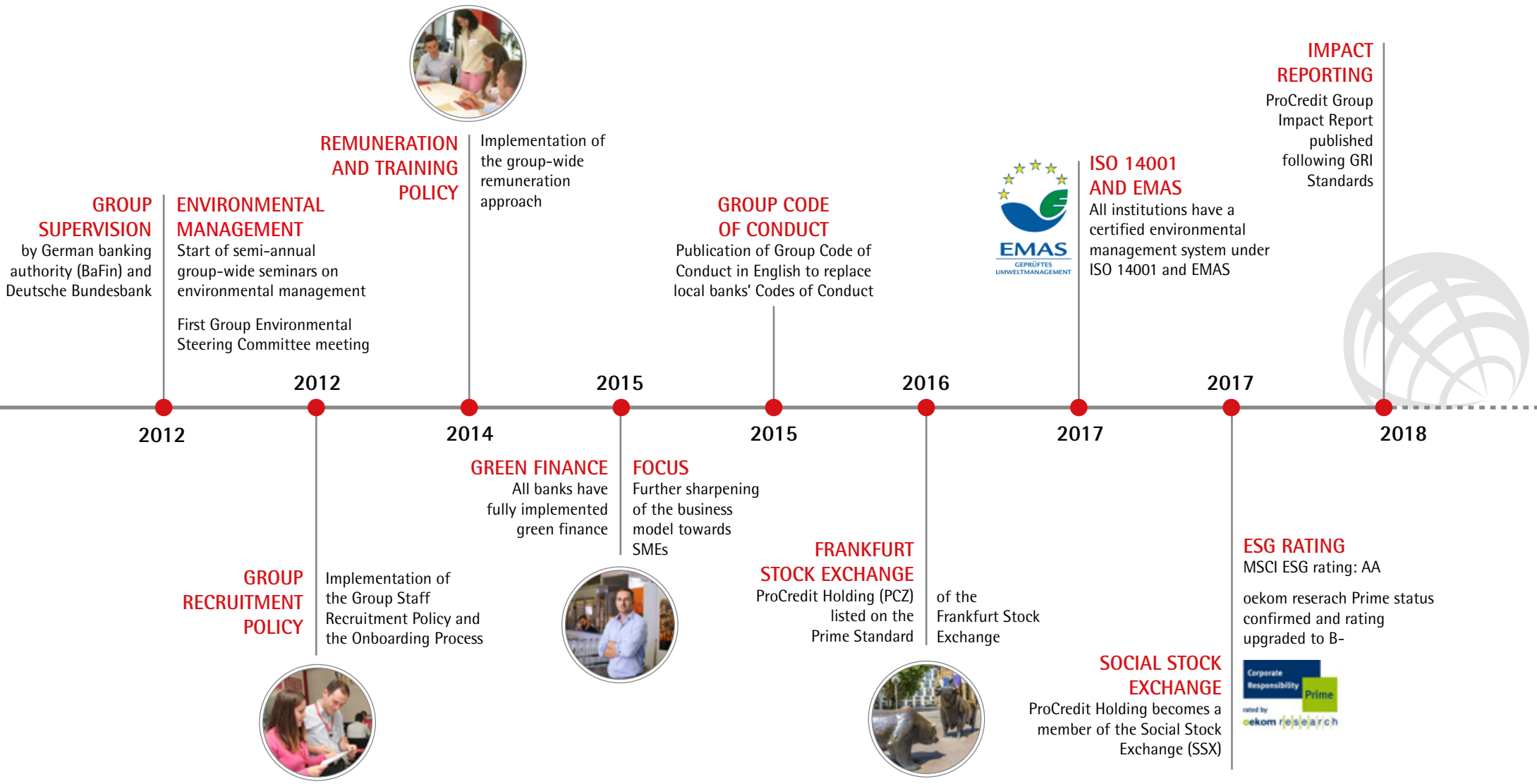
2017 (black text)

2016 (grey text)

¹ Number of employees include management board members and staff in unconsolidated entities.

PROCREDIT HISTORY AND MILESTONES





SUSTAINABILITY AND THE PROCREDIT GROUP

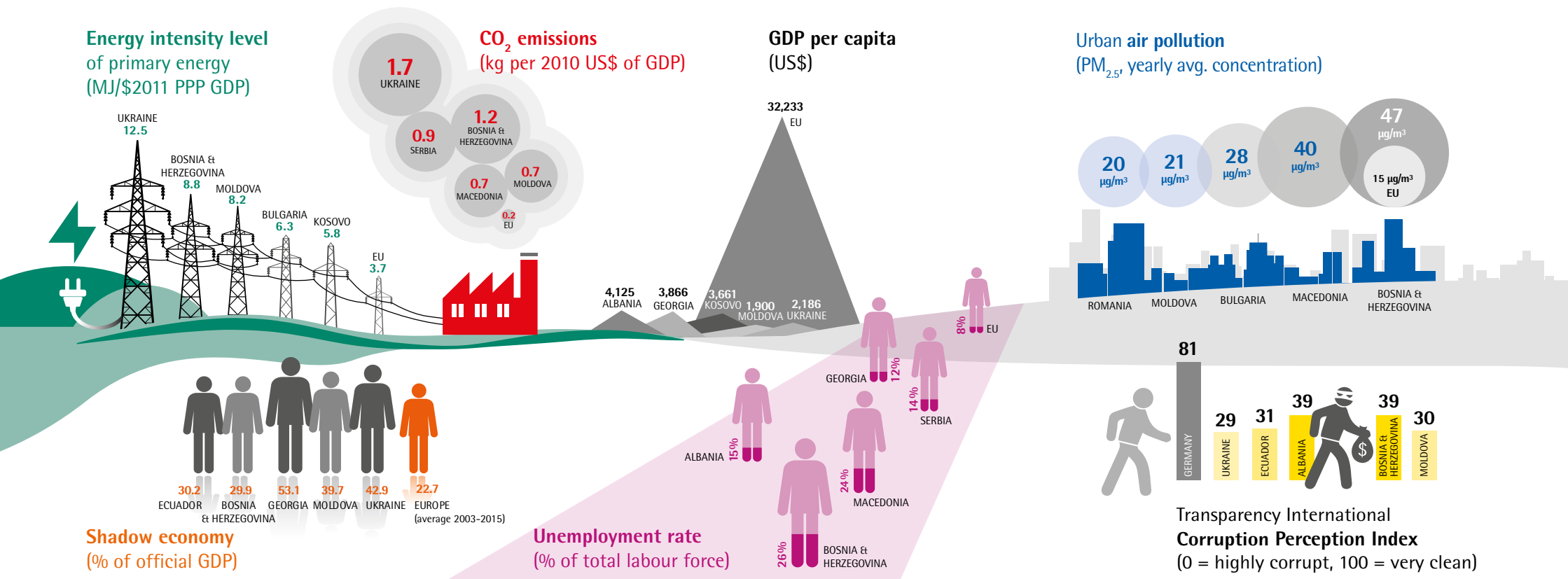
Sustainability context

Our sustainability context and challenges are largely set by the environment in which we operate. We work in developing countries and transition economies, with a focus on South

Eastern and Eastern Europe. In general terms, these countries tend to share a number of similar characteristics, compared with the European Union (EU) average. Good market opportunities and growth potential are combined with relatively higher levels of economic,

political and regulatory volatility. The standards of living are relatively lower, public services are weaker, and labour markets offer limited opportunities. The banking sectors are also less well-developed, with the cash economy still playing an important role, and there are higher

levels of informality, which creates potential for tax evasion and financial crime. Lack of transparency remains a concern, and the populations in these countries have a low level of awareness about environmental issues and protection.



In the infographic, we show data for selected countries of operation to provide an overview and illustrate the situation. All data sources and reference dates can be found on > page 66 and > page 67.

Like any banking group, ProCredit faces competitive markets, with tightening interest margins. Since the financial crisis, the economies and the investment climate in the countries in which we work have been subdued: only now are more positive economic prospects anticipated. The regulatory environment, at the group and local level, continues to evolve and become more complex. The ProCredit group must therefore remain focused and efficient in our response to complex market conditions and developments.

These are the challenges that the ProCredit banks face and address on a daily basis. It is also a context in which we believe ProCredit banks can have a positive impact by serving SMEs in a responsible, modern and transparent way. SMEs typically constitute the economic and social backbone of the countries in which we work.

Sustainability approach

Our ethical approach to banking is integrated into our activities and is reflected in our mission statement as well as in our policies and standards. For us, sustainability also means trying to have a positive impact and to take the long-term view in terms of supporting the development of our clients and employees; contributing to responsible, stable financial sectors; striving to achieve a positive economic, social and environmental impact where we can; strengthening our business; and delivering results for our shareholders.

Our sustainability strategy focuses on the following three areas and defines the overall aims for each of them:

Our business model – The ProCredit group aims to contribute to a responsible and efficient financial system, which enables small and medium-sized businesses to invest and expand. Our corporate governance supports a balanced approach to our profitability and sustainability goals. We invest in state-of-the-art equipment and information technologies for our network and systems to ensure the quality of our services, accessibility and efficiency. We believe in our compliance culture and aim to support our clients in their efforts to become transparent and formalised. We do not support activities that are harmful to the environment and society, and we both maintain and further develop structures to continuously improve our environmental impact and that of our clients.

Our approach to clients – We believe responsible finance is important for the stable development of SMEs. The ProCredit group aims to be a leading specialist full-service bank for SMEs in South Eastern and Eastern Europe. With respect to private individuals, we promote simple, fully-fledged transaction and savings services through direct banking, and we offer credit facilities that support building long-term assets, such as housing, rather than encouraging short-term consumption. Since environmental protection is often overlooked in the countries in which we operate, we proactively promote a sustainable way of doing business among our clients, and also within our own banks.

Mission statement

ProCredit Bank is a development-oriented commercial bank.

We offer excellent customer service to small and medium enterprises and to private individuals who would like to save. In our operations, we adhere to a number of core principles: We value transparency in our communication with our customers, we do not promote consumer lending, we strive to minimise our ecological footprint, and we provide services which are based both on an understanding of each client's situation and on sound financial analysis.

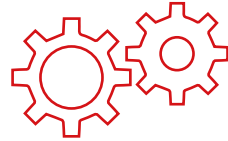
In our operations with business clients, we focus on small and medium-sized enterprises, as we are convinced that these businesses create jobs and make a vital contribution to the economies in which they operate. By offering simple and accessible deposit facilities and other banking services and by investing in financial education, we aim to promote a culture of saving and financial responsibility.

Our shareholders expect a sustainable return on investment over the long term, rather than being focused on short-term profit maximisation. We invest extensively in the training and development of our staff in order to create an open and efficient working atmosphere and to provide friendly and competent service for our clients.

Our approach to staff – In our countries of operation, unemployment and the lack of appropriate education are still serious problems. Ethical banking can only be successful if we have employees who identify with our values and goals, and actively pursue them. To this end, ProCredit applies a deeply thought-through approach to staff recruitment and development, which is central to our business model. We aim to apply a transparent selection process and invest continuously in staff training and development. In addition, we promote a working atmosphere based on transparency, open communication and the constant sharing of best practices at all levels of the institution, which is also made possible

by using English as our lingua franca within the group. We want to create an environment in which staff motivation is maintained not by bonuses and monetary incentives, but rather by clear job descriptions, a fair and transparent remuneration structure, and professional and personal development opportunities.

OUR SUSTAINABILITY GOALS



Our business model

Become a leading "Hausbank" for SMEs in our core markets

Expand business with sustainable, innovative, and growing SMEs

- Increase the share of SMEs in the business loan portfolio

Further increase group efficiency and automation

Continue investing in modern and efficient direct banking channels

Focus on our private client strategy and expand e-Banking penetration

- Increase the share of private clients using internet banking: to 50% by Dec 2018

Increase the share of e-cars and hybrid cars in our fleet to 50% by Dec 2018 (Dec 2017 31%)



Our approach to clients

Foster cross-border cooperation between internationally-oriented clients

Maintain the high quality of the loan portfolio and the PAR 30 indicator below 3.5%

Continue to promote investments in environmentally-friendly technologies and businesses

- Achieve 15% green loan portfolio by the end of 2018 (Dec 2017 12.6%)

Implement group standards for financing renewable energy projects at all banks outside of Germany by Dec 2019 (as of Dec 2017 23% of the banks had implemented the group standards)

- Provide comprehensive training to responsible staff on renewable energy finance by Dec 2018

Report the CO₂ emissions reduction achieved by the financed renewable energy projects

- Develop a reporting approach by Dec 2018



Our approach to staff

Continue to invest in our staff to provide high quality services, optimise our organisation and maintain a stimulating working atmosphere

Recruit between 150 and 200 new staff and integrate them through the onboarding process to cover a natural turnover of around 5-8%

Increase the share of ProCredit Academy graduates in our staff

Reach B1 level of English among all employees by Dec 2018 and maintain this minimum level of proficiency for all staff in the future

Further develop Business Client Advisers, Client Advisers as well as specialists from Credit Risk, Risk and Control functions through training

- Continuous position-specific training and regular refresher training

Regularly discuss our Code of Conduct with all staff

REPORTING APPROACH

This Impact Report presents the ProCredit group's key developments and progress in the area of sustainability for the 2017 reporting period. With this report we would like to inform our stakeholders about our progress in the economic, environmental and social spheres. The report covers the period from 1 January to 31 December 2017 and was published in March 2018. Additional figures for the year 2016 have also been included in order to make it easier to visualise the development of our indicators.

This report follows the guidelines of the Global Reporting Initiative (GRI) and has been prepared in accordance with the "Core" option of the current version of the GRI Standards; it also takes into account industry-specific disclosures for financial service providers. The principles that the GRI has developed with regard to the implementation of the reporting framework are integral to our reporting process: stakeholders framed the focus of our report with their expectations (reporting principle 1: stakeholder inclusiveness) and defined the material topics taking our internal view into consideration (reporting principle 3: materiality). We examine our performance in the context of regional or international benchmarks (reporting principle 2: sustainability context) and report on a wide range of GRI disclosures and our own indicators relevant to our material topics (reporting principle 4: completeness).

The report applies to the ProCredit group, which consists of ProCredit Holding AG & Co. KGaA, 13 ProCredit banks worldwide, ProCredit

Academy GmbH and Quipu GmbH. If certain content in this report only applies to part of the group, this is indicated.

The data and content of this report are intended to provide a balanced, comparable, accurate, clear and reliable presentation of the ProCredit group's economic, social and environmental performance in 2017. Qualitative and quantitative data were collected in a decentralised manner from the respective specialist departments, consolidated in a central database and evaluated by the Environmental Management and Impact Reporting Unit of ProCredit Holding. Depending on the topic, our approach and services are explained either as text, with reference to our guidelines, or in the form of graphs and illustrations.

We have identified the main topics in a materiality analysis (see > page 16). The analysis was based on an internal materiality workshop and a stakeholder survey on our sustainability issues. These were conducted for the first time

at group level in the year under review (see > page 16). The boundaries of our material aspects – the point at which our business operations impact economic, environmental and social issues – were analysed, and in this report, we present the ProCredit group's performance on those issues.

An overview of the content relevant to the GRI can be found in the GRI content index at the end of the report (see > page 89). The Group Impact Report 2018 will be published as scheduled by the end of March 2019. The ProCredit Group Impact Report 2017 can also be viewed online at >ProCredit Group Impact Report 2017.

This Group Impact Report has not been extensively reviewed by external validators. However, important information from publications that are subject to external review has been used. This includes, for example, economic information and key figures from the Annual Report, as well as environmental information and key figures from the Environmental Statement, which is reviewed by an independent environmental auditor as part of the EMAS certification process.



IDENTIFYING KEY MATERIAL TOPICS

The concept of “materiality” is key to meaningful impact reporting. This requires us to evaluate, along with our stakeholders, a variety of issues and topics in terms of ProCredit-specific economic, environmental and social impacts.

Through such a materiality assessment, we ensure that we address the right topics. We began the materiality assessment with an internal management workshop, including members of management from ProCredit Holding, the banks, and staff. During the workshop, the participants formulated and defined the most important key sustainability topics for ProCredit, discussed applicable policies and practices in place regarding sustainability, and evaluated

the present and future business priority for each topic. Additionally, they considered their strengths and defined areas for improvement, and developed ideas for future plans.

The resulting list of topics formed the basis of the stakeholder engagement. A survey was developed and shared with a representative number of our employees, clients and shareholders. Via face-to-face interviews and an internet-based survey tool, our stakeholders were asked for feedback regarding the completeness of this list and for their ranking of the topics in terms of current and future significance.



Stakeholder engagement

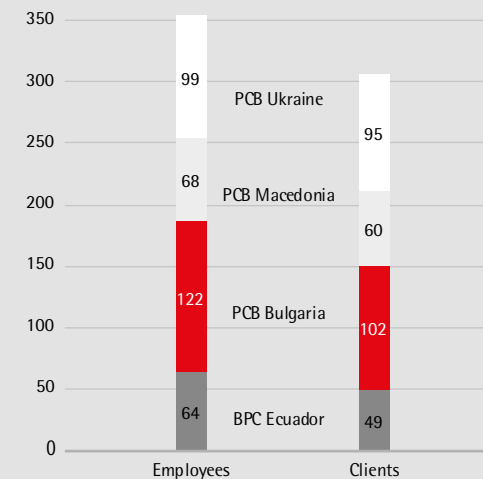
Our stakeholders are essential to our business and to our sustainability strategy. We engage with internal and external stakeholders regularly to assess their areas of interest with respect to our sustainability management in order to understand their expectations and trends. We use every employee workshop, client meeting and shareholder meeting as an opportunity to exchange views and opinions, which are continuously fed into our sustainability approach.

For the purposes of our first Impact Report based on the GRI Standards, we consulted our closest stakeholders – the employees and clients of the ProCredit banks, as well as shareholders of ProCredit Holding. Our employees live our approach to sustainability and carry our shared values forward. We design services that contribute to the sustainable development of our clients, and our shareholders ensure that the mission of the ProCredit group goes forward with a long-term perspective.

Four banks of different size and representing ProCredit's different regions of activity were selected for the implementation of the stakeholder engagement: ProCredit Bank Bulgaria, ProCredit Bank Macedonia, ProCredit Bank Ukraine and ProCredit Bank Ecuador. In total, 353 employees on all levels, 306 business and private clients of these banks, and six shareholders were polled via an online survey

about their present and future priorities with regard to ProCredit's key sustainability topics. Participants and interviewees also had the opportunity to provide input and recommend key topics for consideration. The engagement was implemented between July and September 2017 and will be repeated every three years or when deemed necessary. Until the next engagement, information gathered from our stakeholders during client visits, shareholder meetings or training sessions relevant to our sustainability management will be used to review whether our reporting approach matches stakeholder expectations.

Number of stakeholders consulted in 2017: employees and clients



The results of the surveys were combined and analysed in order to define the material topics for ProCredit's sustainability.

The topics are divided into our three areas of content: our business model, our approach to clients and our approach to staff. The importance of the topic increases from left to right and from bottom to top. Since the list of topics was developed during an internal management workshop, all of them generally have an inherent significance and are considered relevant to the group, but also of course at different levels.

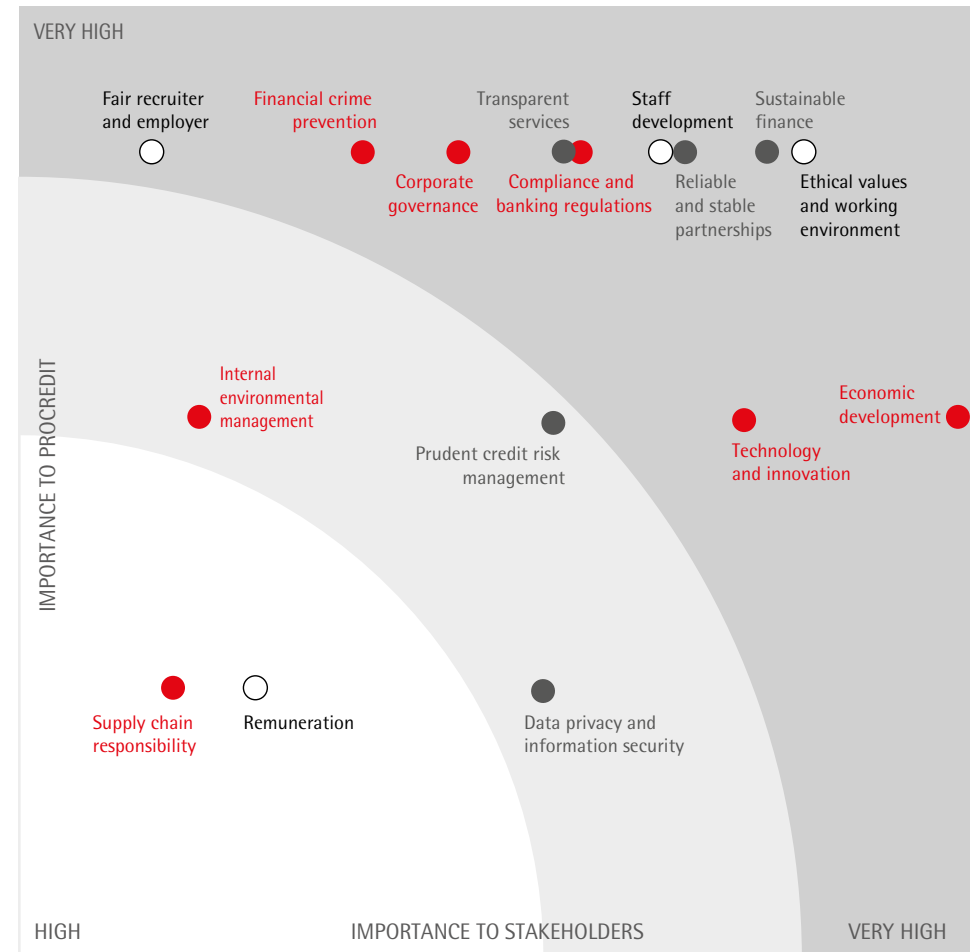
The stakeholder surveys were used to further differentiate and showed that the current top three topics for the stakeholders are "economic development", "ethical values and working environment", and "sustainable finance". When looking at the resulting scores for the future importance of each topic, we expect that "data privacy and information security", as well as "technology and innovation", will gain in importance.

The combination of the internal and stakeholders' opinions shows that the topics of "ethical values and working environment", "reliable and stable partnership", "sustainable finance", and "staff development" are the most important to ProCredit itself and the stakeholders.

The matrix and the interpretation in terms of materiality present the fundamentals of our report and define the material topics. Since we did not want to entirely exclude the lower-ranked topics, i.e. "supply chain responsibility" and "remuneration", they were integrated into the material topics of "internal environmental management" and "fair recruiter and employer". More information about our management of both aspects can be found in these sections.

Together with our closest stakeholders, we assessed the issues that matter most to the ProCredit group. This ensures that we can respond to these topics in an effective manner and communicate our management approach transparently. These issues, or material topics, are mapped on the materiality matrix according to the stakeholders' views on their importance and the importance to our business. We have grouped the material topics into three areas, which guide the structure and content of this report.

Materiality matrix



- Business model
- Approach to clients
- Approach to staff

This table describes each of the material topics identified for the ProCredit group in more detail, indicating the most relevant GRI boundaries and where more information can be found in the report. The mapping of the GRI aspects and our material topics is shown in the GRI content index (see > page 89).

Area	Material topic	Definition	GRI boundary	Further details
BUSINESS MODEL	Economic development	Supporting transition and developing economies with appropriate financial services	Boundary: within/outside	> page 20
	Corporate governance	Implementing a framework of rules and practices which ensures accountability, fairness and transparency in relationships with stakeholders	Boundary: within	> page 23
	Compliance and banking regulation	Managing issues of compliance proactively	Boundary: within	> page 27
	Financial crime prevention	Preventing corruption, bribery, and money laundering through training and organisational infrastructure	Boundary: within	> page 29
	Technology and innovation	Being creative and implementing innovations in the market	Boundary: within/outside	> page 31
	Internal environmental management	Improving resource consumption and carbon footprint systematically through defined structures and responsibilities	Boundary: within/outside	> page 33
APPROACH TO CLIENTS	Reliable and stable partnerships	Promoting close, long-term partnerships with clients through the "Hausbank" concept	Boundary: outside	> page 40
	Transparent services	Offering target group-oriented and an easily understandable range of services	Boundary: outside	> page 42
	Prudent credit risk management	Implementing a comprehensive risk analysis approach, also considering environmental and social impacts	Boundary: within/outside	> page 44
	Sustainable finance	Driving forward the creation of transparent finance that is economically, socially and environmentally inclusive	Boundary: within/outside	> page 47
	Data privacy and information security	Ensuring the privacy and security of personal financial data	Boundary: within/outside	> page 50
APPROACH TO STAFF	Ethical values and working environment	Creating a good working environment with diversity, a flat hierarchy and open communication	Boundary: within	> page 54
	Fair recruiter and employer	Attracting and retaining the right employees with a transparent selection process and fair internal promotion and remuneration	Boundary: within	> page 57
	Staff development	Strengthening staff capacity through comprehensive knowledge and skills development programmes, regular performance reviews and clear career options	Boundary: within/outside	> page 60

OUR BUSINESS MODEL

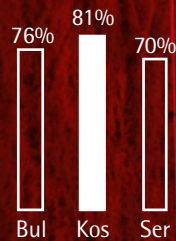
Our business model is focused on services to small and medium enterprises, a growing – and we believe still inadequately served – segment. We aim to support our SME clients in their efforts to, for example, invest in appropriate technologies, adopt efficient and transparent financial practices, expand and generate jobs.

We also aim to contribute to the transparency, stability and responsibility of the financial sectors that we are part of.

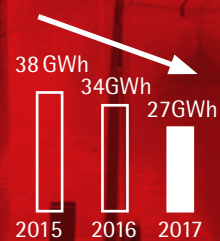


99.3%

of our transactions are automated



Employment provided by SMEs in our regions



Continuous reduction of total energy consumption

Our business model is designed to address responsibly the particular opportunities and challenges of working in transition economies and developing countries. We believe that the opportunities lie in the importance and potential of the SME segment and our competitive advantage in how we work with them. By providing sustainable financial services to SMEs, we aim to positively influence economic development. On the other hand, we see challenges in, for example, the volatile environment, still relatively intransparent business practices and low level of trust in banks, as well as low level of environmental awareness, and a lack of protection and enforcement of regulations. Given these challenges, we put particular emphasis on being professional and responsible in our dealings with clients and staff and in our operations. We have corporate governance and compliance management systems in place which support this approach.

We are careful in what we do and in what we do not do. We do not offer complex investment services and we do not engage in speculative lines of business. We are conservative in our lending practices. We are strict about complying with all prevailing laws and about preventing money laundering, financial crime and questionable business practices. We do not support practices and activities that are harmful to the environment and society and prefer to refuse clients who do not adhere to rules and regulations.

In this digital era, an increasingly important theme is the accessibility, efficiency and security of banking services. We have equipped our Branches and Service Points with modern technology. We are also investing in our direct banking services. In our markets, we view the technologies implemented as new and innovative, thus supporting modernisation and efficiency for our clients and the banking sectors in which we work.

We critically evaluate and certify our own resource management systems. We invest in new environmentally-friendly technologies and hope to inspire and encourage others to do the same.

In the following sections of this chapter, we provide more details on how we manage and measure these key aspects of our business model in terms of:

- **Economic development**
- **Corporate governance**
- **Compliance and banking regulation**
- **Financial crime prevention**
- **Technology and innovation**
- **Environmental management**

ECONOMIC DEVELOPMENT

The ProCredit group is focused on countries that can be characterised as transition and developing economies. These countries typically display similar characteristics, such as an unstable institutional setting, dependence on more developed economies, and a high degree of informality and tax evasion.

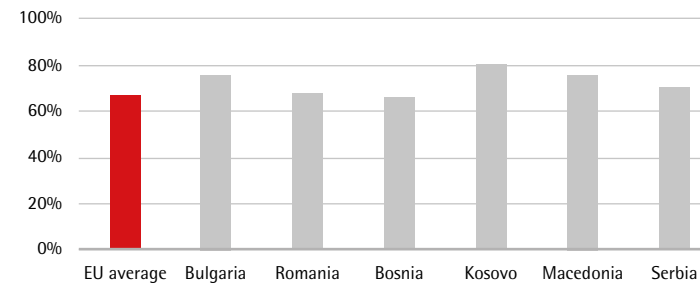
Consequently, there are limited opportunities in their labour markets, as well as a lack of social and environmental protection. Economic growth and the provision of transparent financial services to the production sectors help to reduce these hurdles by creating conditions that are conducive to supporting a strong middle class and a well-functioning market economy and democracy. In our countries of operation, SMEs play a particularly important role in that they form the backbone of the economy by providing formal employment and driving technological modernisation. Providing sustainable finance to these market players can thus contribute to the alleviation of economic and social constraints. In doing so, we strive to contribute to the value added and the employment generated by SMEs (see our > [Impact Report 2016](#) prepared for the Social Stock Exchange).

Since its founding, the ProCredit group has been a pioneer in development-oriented finance. In the past, development finance focused primarily on the provision of banking services for the poor. Financial inclusion and microfinance were seen as catalysts of economic growth in developing countries. Since then, there has been a shift towards the provi-

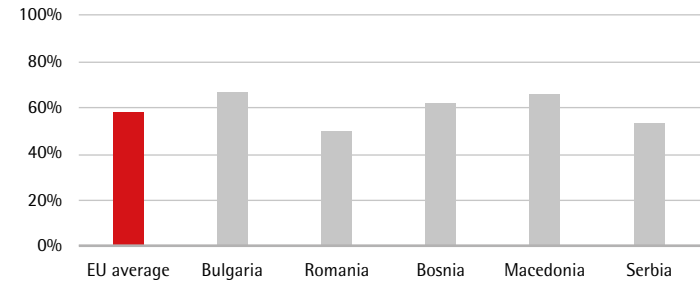
sion of increasingly targeted financing to the larger companies that employ the majority of the population and have the potential for sustainable growth. Proponents of this approach purport that more financing will unequivocally lead to more growth. However, it carries with it the dangers of detaching finance from the real economy and encouraging excessive risk-taking behaviour – a process typically referred to as financialisation. Given the problematic nature of this tendency, it is incumbent upon the providers of development-oriented finance to consciously pursue a long-term and sustainable pathway. This principle is engraved in the business behaviour of the ProCredit group.

Following the view that it is primarily companies of a critical size that drive economic change, the ProCredit banks have in recent years become focused on serving SMEs. By providing tailor-made financial services to SMEs in the productive sectors, we aim to enable businesses to make innovative investments and to adopt international best practices. On the national level, these efforts increase competitive pressure on the local market, which in turn increases efficiency and results in lower prices for the final consumer. On the international level, these efforts increase the international competitiveness of domestic firms; this pushes exports, substitutes imports and lowers the structural imbalances in trade, thus resulting in reduced external dependency, greater economic resilience and stronger internal growth.

Number of people employed by SMEs in 2016 (% of total employees in enterprises)



Value added by SMEs in 2016 (% of total value added by enterprises)



European Commission, Annual Report on European SMEs, 2015/2016; EIB, Assessment of financial needs of SMEs in Western Balkan countries, 2016

Through our policies and practices, we strive to address many of the > **Sustainable Development Goals** (SDG) formulated by the United Nations. For example, larger-scale investments and the fostering of agricultural production financed by the ProCredit banks have aided in substituting nutritional imports and in generating formal employment for the local population (SDG 8: Decent work and economic growth). Following our example of providing training for our staff, some of our clients have similarly started to invest in the development of their own employees (SDG 4: Quality education). One part of our credit risk policy contains an environmental and social assessment, which ensures high standards for the safety and remuneration of workers and for environmental sustainability (SDG 12: Responsible consumption and production). As economic growth often leads to ecological degradation and increased emission levels, the financing of environmentally-friendly investments and renewable energy projects form another key area of our operations (SDG 7: Affordable and clean energy). Not only does this address one of the most pressing issues in developing countries, but it also presents vast potential for technological change and a secure, domestic electricity supply (SDG 9: Industry, innovation and infrastructure).

Our deployment of the InnovFin SME Guarantee facility financed by the EU illustrates ProCredit's efforts to support the international development agenda. This scheme spurs investment in new technologies by reducing collateral requirements for companies, especially those in the manufacturing sector. We can highlight other examples.

By organising regional business fairs and events for our clients, we help to foster transnational economic ties and value chain networks. In accordance with our approach to sustainable development, we try to continue to provide financial services even in difficult times or full-scale crises, thereby contributing to economic resilience. During the crisis in Ukraine from 2014 to 2016, the financial sector was hesitant to provide financing. However, ProCredit Bank Ukraine continued to support its SME clients during this difficult period, aiding them with their investments and providing them with access to working capital (the bank's loan portfolio actually grew by 74.6% between Dec 13 and Dec 16). With the opening of our branch in Thessaloniki, Greece in 2015, we similarly aim to support local SMEs in the region with decent and sustainable financial services in the face of a depressed financial sector.

By being a responsible, transparent and stable banking partner in all our operations, we strive to foster the economic success of our clients by contributing to their ability to generate formal employment, mitigate environmental degradation, and enhance social stability.



PROCREDIT BANKS FINANCE INNOVATIVE PROJECTS VIA THE INNOVFIN GUARANTEE SCHEME

The European Investment Fund (EIF) and the ProCredit group are providing a total of EUR 820 million to innovative SMEs.

EIF-backed financing is now available through ProCredit banks in eleven countries (Germany, Albania, Serbia, Macedonia, Bosnia and Herzegovina, Bulgaria, Greece, Romania, Moldova, Ukraine, and Georgia) and targets companies that use new technologies and produce new products. To date, agreements with ProCredit have already supported more than 1,000 innovative SMEs and many more will be financed in the coming years.

These agreements were signed under the European Commission's InnovFin initiative and backed by Horizon 2020, the EU's

research and innovation programme. The InnovFin initiative enables participating banks to provide loans to innovative companies with the support of a guarantee provided by the EIF. The agreements signed in EU Member States were made possible by the support of the European Fund for Strategic Investments (EFSI). The EFSI is the central pillar of the European Commission's Investment Plan for Europe, also known as the Juncker Plan.

In 2017, ProCredit financed clients from several business sectors, such as organic agriculture and manufacturing. Below we present three examples of clients who received support through the InnovFin initiative:

Serbia	Bulgaria	Moldova
Production and trade of agricultural goods	Organic food production	Import and trade of agricultural machinery
Investments in working capital and expansion of the production line	Investments in the construction of silos to increase storage capacity	Investments in modern, energy-efficient equipment for import and trade
Benefits: <ul style="list-style-type: none"> • Purchase goods at wholesale prices • Achieve higher margins • Reduced costs for storing at external storage facilities • More efficient and secure inventory of raw materials 	Benefits: <ul style="list-style-type: none"> • Increase production and expand the product range • Faster manufacturing to meet high demand • Retain a strong position in the local market • Improve business results and remain a market leader 	Benefits: <ul style="list-style-type: none"> • Establish a new line of business • Offer farmers agricultural solutions and machinery • Increase efficiency and output, reduce fuel costs • Become a leader in the sale of agricultural machinery



CORPORATE GOVERNANCE

Organisation of the ProCredit group and legal structure of ProCredit Holding

The ProCredit group has a transparent and stable legal and corporate governance structure, which supports its ambition to achieve both commercial success and a positive development impact over the long term.

The ProCredit group comprises 13 banks and employs 3,384 people. ProCredit Holding is the parent company and, from a regulatory perspective, the superordinated company of the group. ProCredit Holding owns more than 80% of the voting shares in all of its subsidiaries. It is responsible for the strategic guidance of

the group, for maintaining an adequate level of equity, and for ensuring that all reporting, risk management, anti-money laundering and compliance obligations required under German and European banking regulations are met. ProCredit Holding also plays an important role in determining the group's human resources policies. At a consolidated level, the ProCredit group is supervised by the German financial supervisory authorities (BaFin and Bundesbank).

The legal form of ProCredit Holding is a partnership limited by shares (Kommanditgesellschaft auf Aktien - KGaA). The general partner is ProCredit General Partner AG, a small independent company owned by the core shareholders (Zeitinger Invest GmbH, KfW, DOEN, IFC and ProCredit Staff Invest GmbH &

Co. KG). These core shareholders, who also own the majority of the shares in ProCredit Holding and share a commitment both to development impact and to commercial success, have guided the activities of the group since its foundation and make a material contribution to the success of the ProCredit group.

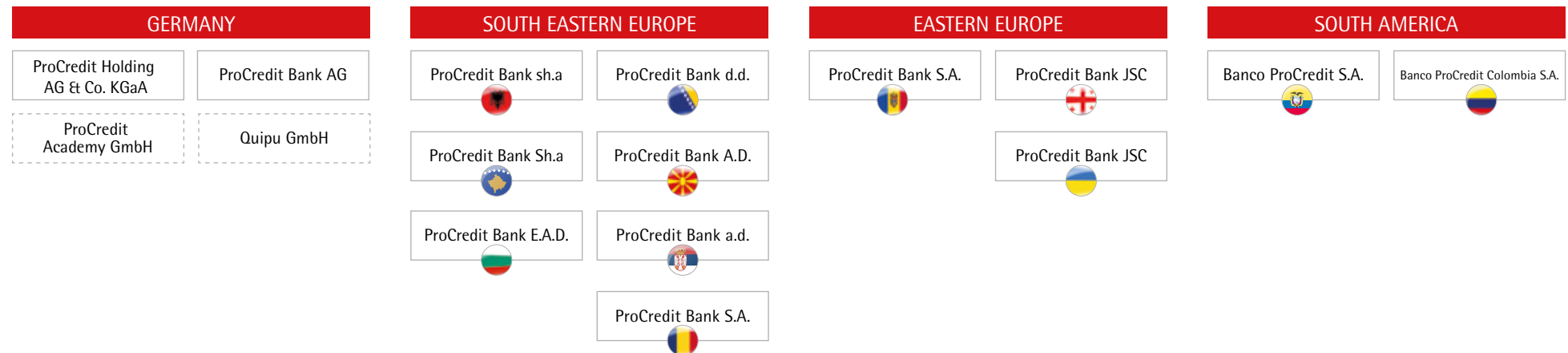
Given the role of the General Partner, the KGaA structure allows for stability in terms of the mission of the ProCredit group: a change in the shareholder structure of ProCredit Holding (for example by way of a capital increase) does not dilute the influence of the core shareholders, thereby ensuring that the group maintains its mission to combine a development impact with commercial success.


The company's purpose to serve SMEs and to "achieve, over the long term, an optimal rate of return on the capital employed while at the same time achieving and maintaining a high degree of orientation towards the target group" is legally enshrined in the Articles of Association of ProCredit Holding.

Governance structure and committees

ProCredit Holding places emphasis on transparent corporate governance and open communication with all stakeholders. The values upon which we have built the ProCredit group include personal integrity, professionalism, social responsibility, open communication and transparency. These principles pervade all aspects of how the group is governed.

Organisation of the ProCredit group



 Non-bank subsidiaries

ProCredit General Partner AG is responsible for the management of ProCredit Holding. The Supervisory Board of ProCredit General Partner appoints and monitors the members of the Management Board of ProCredit General Partner AG. We thus refer to the "Management" of ProCredit Holding, which is equivalent to the Management Board of ProCredit General Partner AG.

The supervisory boards of ProCredit General Partner AG and ProCredit Holding (the latter hereafter referred to as the Supervisory Board) comprise the same six individuals. This allows for a maximum level of transparency and consistency between the two supervisory boards, and a high degree of clarity in the cooperation between the Supervisory Board and the Management.

The Management reports to the Supervisory Board on the business and risk strategies of the group at least once per year and routinely reports on the implementation status of strategies. These strategies incorporate the aims and measures of the group with regard to both commercial and sustainability themes. All major strategic initiatives are discussed with the Supervisory Board. For example, the Supervisory Board fully supported seeking membership in the Social Stock Exchange, which was achieved in May 2017.

The German Corporate Governance Code ("CGC") has long been a reference point for the group, and since the company's shares were admitted to trading on the Frankfurt Stock Exchange, the CGC has gained in significance. With the exception of the deviations listed in the Corporate Governance Statement of our [Annual Report](#),

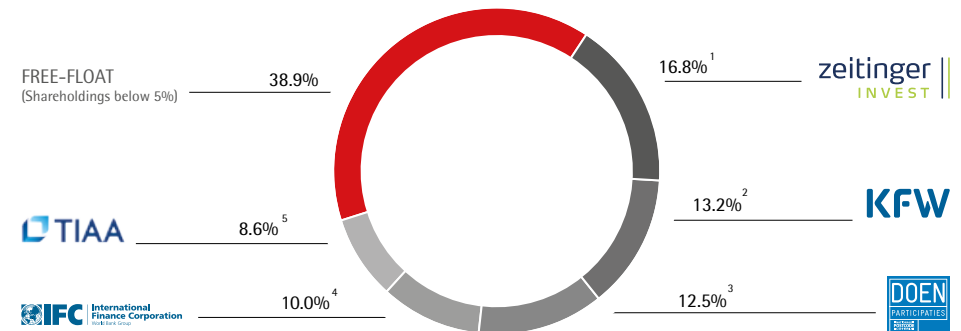
the company operates in compliance with the recommendations of the CGC. All members of the Supervisory Board aim to act as independent members within the provisions of the German Stock Corporation Act and the CGC.

The Supervisory Board as a body is statutorily obliged to assume and does in fact assume the responsibilities of different committees (audit, nominations committee). Still, we are of the opinion that the relatively small Supervisory Board, with only six members, and the limited scope of the business activities of the group make the formation of separate committees superfluous. This opinion is reinforced by the fact that all of the Supervisory Board members are sufficiently qualified to perform the duties of these committees, that they meet on a regular basis and that they devote sufficient time to their duties. Moreover, the Supervisory Board believes it is important that all of the members are involved in the activities that an audit committee and a nomination committee would typically focus on. The Management Board, however, has set up specialist com-

Governance structure and committees



Reputable development-oriented shareholder base



¹ According to information voluntarily reported by Zeitinger Invest on 28.02.2018 (see section "Other information") - ² According to the voting rights notifications as of 28.12.2016 - ³ According to the voting rights notifications as of 29.12.2016 - ⁴ According to the voting rights notifications as of 27.02.2018 - ⁵ According to the voting rights notifications as of 29.12.2016. The presented shareholder structure is based on public voting rights notification and voluntary disclosure of information by shareholders (see sections "voting rights notification" and "other information"). When calculating this breakdown, the number of voting rights reported by the shareholders as of the dates indicated above and the current total voting rights (i.e. 58,898,492) were taken into consideration. ProCredit Holding AG & Co. KGaA has made reasonable efforts to provide a realistic overview of the shareholder structure. However, due to limitations on the availability and verifiability of data, ProCredit Holding AG & Co. KGaA does not assume responsibility for the accuracy, completeness or timeliness of the information presented here.

mittees, such as the Group Risk Management Committee, Group Compliance Committee, and Group IT Committee. The committees support and advise the Management with regard to monitoring and steering the development

of all ProCredit institutions and defining the overarching policies to be implemented by all member institutions.

Sustainability approach

A responsible and positive approach to our economic, environmental and social impact is integrated into most aspects of group operations. This report shows that sustainability themes are integrated into the group's strategies and policies related to the areas of business, risk and HR: we believe that the long-term, sustainable success of ProCredit goes hand in hand with the long-term, sustainable success of our clients and staff. The curriculum of the three-year ProCredit Management Academy programme for all group managers (see our > [ProCredit Academy Brochure](#)), which incorporates courses as diverse as "The Cave and the Light – History of Moral and Political Philosophy" and "Climate Change in a Global Political Context", illustrates the emphasis placed on humanities and the environment and not just on banking.

In addition, there are specific policies and structures for particular aspects of our sustainability strategy. For example, for the group's environmental management system, the overarching > [Group Environmental Management Policy](#) defines the structures and responsibilities that must be maintained throughout the group. Our Group Environmental Steering Committee is chaired by a member of Management and defines the strategy with respect to e.g. green finance, but also in terms of sustainability and impact reporting. This committee is supported by the Group Environmental Management and Impact Reporting Unit, which was established at ProCredit Holding in 2012. Each of our institutions has an Environmental Committee, also chaired by a management board member, which meets every quarter and oversees the development of the EMS and implementation

of the green strategy at the local level (see > [page 34](#)).

Approach to executive remuneration and diversity

The group approach to remuneration is outlined in the "Our approach to staff" section of this report. The principles apply equally to the members of the Management Board of ProCredit General Partner AG. Remuneration should be fair and transparent. Variable remuneration is only applied on a limited scale. The remuneration of the members of the Management Board contains no contractually agreed variable elements. For that reason, the remuneration of our senior managers is not always comparable with what our competitors offer. In exceptional cases, the Supervisory Board of ProCredit General Partner AG may apply a special remuneration to reward specific cases of extraordinary performance. The details are covered in the Remuneration Report of our > [Annual Report](#) (see > [page 79](#)). The members of the Supervisory Board receive annual remuneration of EUR 10,000.

The objectives for the group in terms of financial performance and economic, environmental, and social impact are defined in the annual planning process. Across the group, management members have been with ProCredit for

12
YEARS

average service
length of members
of management
boards

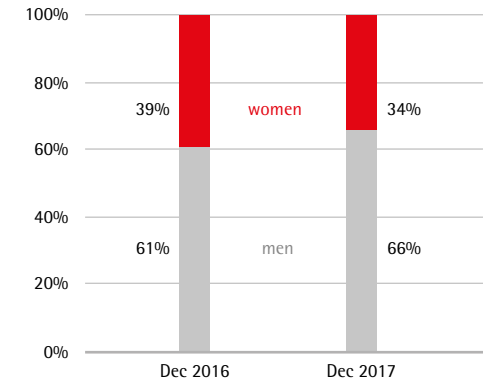
many years and have demonstrated their motivation to achieve the objectives set without explicit monetary incentives. The twin objectives of commercial success and development impact are the raison d'être of the group.

The group > [Code of Conduct](#) states:

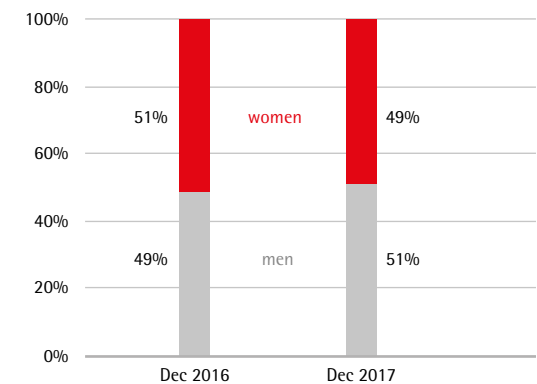
- **Gender diversity:** Because decisions on recruitment and promotion are based on values, engagement and professionalism, at all levels of the organisation, including senior management, gender diversity is simply a fact and not a goal.
- **Promotion of diversity:** As a group involved for many years in different countries and drawing on different and complex cultural and historical backgrounds, the acceptance of cultural diversity has become a simple fact, based especially on the recognition that each individual deserves respect as a human being.

These principles apply through to the highest governance levels. 49% of the members of the management boards of the ProCredit banks (i.e. 20 of a total of 41) are women. At ProCredit Holding, one member of the six-person Supervisory Board and one member of the three-person Management are women. Furthermore, the Management of ProCredit Holding wishes to ensure that each gender is represented in the first and second management levels of the company.

Share of women/men in supervisory boards of the ProCredit group



Share of women/men in management boards



CODE OF CONDUCT AND EXCLUSION LIST

Our ethical responsibility is documented in our > **Code of Conduct** and Exclusion List, which contain the core rules and regulations that all employees of the ProCredit group are obliged to observe.

The Code of Conduct is based on the fundamental principles of human dignity and emphasises the commitment to mutual respect and responsible behaviour. The Code of Conduct aims to serve our staff as an ethical compass for their behaviour and their decisions.

The Exclusion List specifies business activities that are harmful from a social, moral or ecological standpoint or that are not in compliance with standard health and safety regulations, and therefore cannot be financed by the ProCredit banks.

The Code of Conduct translates the following group principles into practical guidelines for our staff:

- ✓ **Personal integrity**
- ✓ **Professionalism**
- ✓ **Social responsibility**
- ✓ **Open communication**
- ✓ **Transparency**

The Code of Conduct is closely linked to the daily life of our staff and influences their daily dealings with clients, colleagues, and public authorities. It does not include a set of rules with instructions for how to behave in every possible situation. Instead, it presents the principles upon which staff behaviour should be based on a case-by-case basis.

The Code of Conduct is discussed intensively with our staff, and regular refresher training sessions help to ensure that employees remain aware of and committed to our high ethical standards and are kept abreast of new issues and developments which have an ethical dimension.

The Code of Conduct also includes the group-wide guidelines on the prevention of money laundering, terrorist financing and fraudulent activities, and thus specifies, together with subordinate directives, how these basic rules are to be implemented in practice.

31,141
HOURS of Code of
Conduct
training in
2017

COMPLIANCE AND BANKING REGULATION

We operate in countries which have a reputation for limited transparency, a less reliable regulatory environment and a lack of trust in banks. We see it as part of our development role to take a disciplined, transparent approach to banking and to exercise conservative risk management.

ProCredit places emphasis on compliance and responsible banking in a way that may not be typical for banks in the countries in which we work; we believe this makes a difference for clients and the banking sectors which we are part of.

We take a three-pronged approach aiming to:

– apply high standards, which can go beyond the regulatory requirements of our countries of operation

– foster a culture of understanding and compliance among all staff members to ensure that we operate in line with the high standards we define

– have an effective compliance function which supports and controls our aspirations in the area of regulatory compliance

We apply international best practices with regard to banking, environmental and social standards. ProCredit banks operate largely in emerging markets. However, we are supervised by the German Federal Financial Supervisory Authority (BaFin), and we therefore apply German banking regulations, in addition to local banking regulations, at all our banks for most of their activities. All ProCredit banks are subject to regular inspection by local regulatory authorities and the group is subject to regular inspection by BaFin and Bundesbank. The group also applies the ethical, environment and social standards expected by our development-oriented core shareholders and complies with EBRD Performance Requirements and IFC Performance Standards.

For example, the group applies the German Minimum Requirements for Risk Management, commonly referred to as MaRisk, at all ProCredit banks. MaRisk specifies stringent standards for the management and internal control of all material risks, including the maintenance of adequate capital for such risks. The ProCredit group incorporates MaRisk standards in a set of policies which have to be applied in all banks. Compliance is controlled by the group's Internal Audit teams.

In the area of Anti-Money Laundering (AML) and the Prevention of Financial Crime and Fraud, we apply German and EU regulatory standards group-wide. It goes without saying that we do not tolerate bribery or corruption in any form. It is part of our social vision to insist on high transparency and to only work with clients who have legitimate sources of income. Intolerance of illegal activities and tax evasion is important in all countries.

Since December 2016, ProCredit Holding shares have been listed on the Prime Standard segment of the Frankfurt Stock Exchange. ProCredit Holding therefore applies the tight standards of a capital-market-oriented institution and operates in line with the EU Market Abuse Regulation. In keeping with our transparent, focused business model, ProCredit banks do not actively trade in or advise clients on securities or investment products, and consequently have the status of a non-trading book institution pursuant to the German Banking Act. As a result, the group has simplified compliance demands in the area of securities trading and financial instruments regulations.

We foster a culture of understanding and compliance in a number of ways, which are led by our management and are described in detail in the "Our approach to staff" section of this report (see > [page 52](#)). One example is our > [Code of Conduct](#). This is much more than a simple statement of principles. Rather, it presents, in a very practical and comprehensive way, the "ethical compass" which is expected to guide the behaviour of all employees.

Our Code of Conduct states that

“ ProCredit banks proactively promote compliance. [...] We are all expected to know, understand and fully apply the group policies. [...] We should be aware of the rationale behind the internal regulations (e.g. regarding client protection, compliance with external regulations, fraud prevention, etc.). It is not enough to tell a client that “it is simply the procedure”.

The Code of Conduct is a binding document which forms an integral part of the employment contract and requires full and continuous compliance. All our staff are educated on the principles behind what is written in the Code of Conduct and participate in regular discussions on the code.

0 significant non-compliance events

The group has a well-developed compliance function coordinated by the Group Compliance Officer and Group Compliance Committee. The Group Compliance Policy provides the framework for managing regulatory compliance risks. Material group compliance risks and priorities are assessed every year. Since the group enjoys such a strong compliance culture, priorities are typically set in response to international regulatory developments. The Supervisory Board receives an Annual Group Compliance Risk Management Report, which covers any significant non-compliance events, analyses of customer complaints, group-wide findings from internal audit and internal control functions, as well as the compliance risk assessment of Compliance Officers at each ProCredit bank.

In 2017, the group identified no significant non-compliance events. In 2018, as in 2017, a particular focus will be compliance with the IT, information security and data protection standards that are part of the new Regulatory Requirements for IT (BAIT) and the Minimum Requirements for the Security of Internet Payments (MaSI), both defined by the German Federal Financial Supervisory Authority, the European Second Pay Services Directive (PSD II), and EU Data Protection regulations, particularly as the group strengthens its digital offering for clients. IT security and data protection are very high on the group's agenda, both from a regulatory and a strategic point of view (see > [page 50](#)).

FINANCIAL CRIME PREVENTION

We are aware that the structures that facilitate legitimate business and international financial transactions can also be used for illicit purposes: laundering proceeds of crime, tax fraud, bribery and corruption, and generating illicit financial flows out of developing countries. These mechanisms create incentives for corrupt behaviour and require solutions at national and international levels.

The effects of illicit financial flows range from distortion of competition and the misrepresentation of investments to the promotion of corruption and bribery as well as the undermining of governance and political institutions. Frequently, the methods of illicit financial flows make use of money laundering techniques, including simple wire transfers to accounts in tax havens or complicated business transactions, sometimes involving shell banks and complex corporate structures. Illegally obtained money promotes the criminal infiltration of entire business sectors and increases the dependence of economically weak countries on organised crime and corruption.

In the majority of the countries in which ProCredit banks operate, bribery and corruption are salient problems. Despite some reform efforts, they remain a major concern in EU accession countries, where their detrimental effects are felt by ordinary citizens.

ProCredit banks therefore address financial crime risks extensively and in an integral manner through a selective staff recruitment process and our ProCredit Onboarding Process. The recruitment process includes a two-week in-house workshop on group strategy and ethics. The six-month ProCredit Onboarding Process covers all aspects of our approach to banking, including indicators of financial

crime. Subsequently, staff in all banks benefit from regular advanced training courses on anti-money laundering and financial crime prevention. Furthermore, ethical behaviour and the prevention of financial crime are part of the ProCredit Academy training programme.

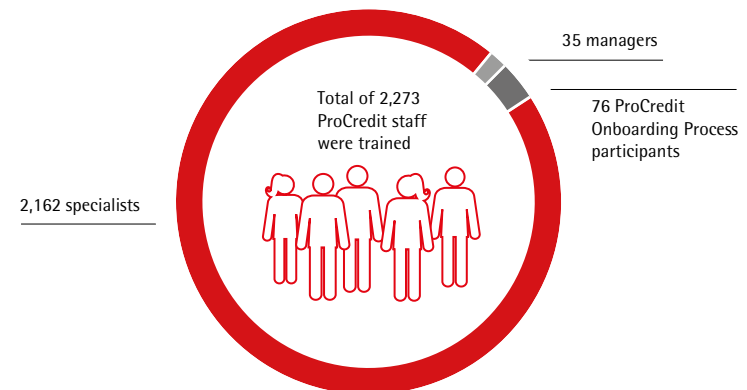
Training and awareness-raising measures ensure that our staff are in a position to identify

100% transactions screened for financial crime

financial crime risks and comprehend current anti-money laundering and customer due diligence requirements at all times. In 2017, more than 2,200 ProCredit employees attended financial crime risk-awareness trainings.

Our remuneration system is also designed to disincentivise the pursuit of short-term advantages or entering into questionable business relationships; we believe that incentives such as bonuses can interfere with the ability of staff to provide our clients with responsible advice. Instead, we rely on clear job descriptions and regular feedback from managers to guide the performance of our staff. We also expect

Trained staff on financial crime risks in 2017



employees and managers to foster a working environment in which open communication is simply the reality. This culture helps us to prevent fraudulent behaviour.

In order to avoid conflicts of interest, our employees and their relatives are not allowed to accept gifts, meals, favours, services, entertainment, or anything else of monetary value from any person or organisation seeking to influence our business decisions.

The **> Code of Conduct** explicitly states that employees or affiliated parties receiving remuneration from clients or third parties will be immediately dismissed, and if appropriate, legal action will be taken against them. Clients or suppliers engaging in such practices will no longer be seen as potential partners.

At the heart of our approach to preventing financial crime with client accounts are the efforts made by our staff to know our clients. Long-term business relationships are central to our strategy for successfully preventing financial crime. For example, ProCredit banks always identify the beneficial owners in all business relationships; these are natural persons who benefit substantially from a business relationship, but who might themselves never make an appearance or play an active role in the business relationship itself. ProCredit banks undertake this effort, even in markets where high levels of customer due diligence are not required by law.

ProCredit banks screen all beneficial owners, customers, and authorised drawers of every account against a set of around 700 different sanction lists, blacklists and watch lists. Additionally, IT-based anti-financial crime systems are used by all ProCredit banks to achieve systematic and effective monitoring of all payments.

When choosing our customers, it is our policy not to enter into business relationships with persons or companies whose business activities are contrary to our values, and to end any existing business relationships as soon as we become aware of grave inconsistencies with our ethical corporate mission. Our [> Code of Conduct](#) and Exclusion List set forth these goals in writing and constitute the core rules binding the professional conduct of our staff members. The group-wide guidelines on the prevention of money laundering and fraud, the Group Anti-Money Laundering Policy and the Group Fraud Prevention Policy, as well as their related standards and procedural instructions, add substance to these basic rules.

All ProCredit banks employ dedicated AML staff who oversee the implementation of all group-wide anti-financial crime measures as well as national rules and regulations. Across the group, the Group AML team co-ordinates these efforts, providing training and advice as well as maintaining a detailed reporting system.

We operate in accordance with international best banking practices and standards, along with EU and German regulatory requirements, and all ProCredit institutions adhere to the uniform policy framework of the Group Anti-Money Laundering Policy (Group AML Policy) and complementing AML standards and guidelines. The Group AML team actively supports all ProCredit banks and continuously advances anti-financial crime measures within the group so that all obligations required under any applicable regulation are implemented. As stated in the Annual Report of the Group AML Officer, ProCredit banks closed 251 accounts, blocked 45 accounts and put 148 accounts under enhanced monitoring for further investigation due to financial crime risks in 2017.

We believe that our values-based business model and holistic approach to staff management, combined with a zero-tolerance approach to bribery and corruption, as well as our culture of complying with all applicable laws and regulations, contribute to exceptionally low levels of internal fraud and financial crime at ProCredit banks.



251
closed
accounts



148
accounts under
enhanced monitoring for
further investigation



TECHNOLOGY AND INNOVATION

We believe that modern, efficient banking technology goes hand in hand with a modern, efficient SME sector integrated into the global economy. Private clients likewise aspire to Western banking standards, which are not always available. Therefore, we have modernised our Branches and Service Points to include 24/7 Zones with state-of-the-art infrastructure, and we are investing in digital solutions for routine services.

The shift from transactions carried out manually in our outlets to those performed via e-Banking and 24/7 Zones has led to a significant increase in operational efficiency and makes it possible for our clients to access our services at any time. Our modern 24/7 Zones enable our clients to make withdrawals, deposit cash and carry out various transactions, such as transfers and account information retrieval, at their convenience. In most of our markets, cashless operations and using banking machines and e-Banking were new for our clients. Though the transition took time, it was successful thanks to the efforts of our staff in communicating the benefits of these technologies. Today, 99.3% of our transactions are handled through automated systems rather than involving front desk staff, which increases the formality, efficiency and transparency of transactions.

In August 2017, we launched a new online banking solution, "ProCredit Bank Direct", which unifies our services for private clients of all our banks (for more details see > page 32).

With this approach, we can further reduce our physical infrastructure and costs while continuing to serve our clients well. For example, we aim to launch the group mobile application in 2018. We are also putting additional focus on developing and maintaining professional contact centres, which are providing advisory services to all clients and are actively involved in client acquisition and customer care.

Most of our information technology solutions are developed by > Quipu – our 100% owned IT service and software subsidiary. We believe that having this internal capacity is valuable in that it enables us to focus on technologies which benefit our clients and to develop and implement new ideas and technologies across the group. As a relatively small banking group, we have put in place the structures to coordinate IT activities carefully, and to assess and design new services and channels prior to development and rollout.

99%

transactions
handled
through
automated
systems

Cash transactions as a percentage of total transactions (in terms of numbers)



In addition to the automation of transactions, the operational efficiency of other processes is also an important topic for us. A good example is the migration to a paperless office, which means simultaneously increasing operational efficiency while reducing our consumption of paper.

As a banking group with a focus on environmental sustainability, we also support new innovative technologies on our own premises. Therefore, at all ProCredit banks one can find technologies such as photovoltaic panels, electric cars, geothermal heating systems or green walls. With these measures, we improve our ecological footprint and create showcases for our clients and the general public.

DIRECT BANKING

Jovanka Joleska Popovska, General Manager and Member of Management Board of ProCredit Bank Macedonia

QUESTION: In 2017, ProCredit Bank Macedonia introduced direct banking to its clients. Ms Popovska, could you explain how "ProCredit Bank Direct" provides additional convenience and flexibility in the management of funds and the use of banking services?

ANSWER: "ProCredit Bank Direct" offers online banking services that are available to our clients around the clock. This option gives them the flexibility to manage their accounts and financial resources directly from their mobile phones. They no longer have to wait in queues at the bank or plan visits during the bank's opening hours. They can manage their accounts whenever, wherever. Another advantage is our new simplified price list, which is only two pages long. We want our services to be as transparent and as easy to understand as possible.

QUESTION: Which services can be accessed via "ProCredit Bank Direct"?

ANSWER: "ProCredit Bank Direct" offers our clients a set of services for their everyday banking needs, such as bank accounts, cards, e-Banking, m-Banking and additional payment options. They can also obtain information about our savings and credit offers and can apply for them online.

QUESTION: Direct banking has come to life in many Western countries, but ProCredit is the first German bank in Eastern Europe to offer this service. How applicable is this technology in the Eastern European markets?

ANSWER: Direct banking is indeed a new concept in the Eastern European markets. The professionals and private individuals who form our target group have active lifestyles and their working hours tend to overlap with the opening hours of the banks. Therefore, direct banking is a perfect solution, and since our platform is so straightforward and easy to use, we expect our clients to accept this technology quickly.

QUESTION: Ms Popovska, could you describe ProCredit's future plans with regard to direct banking? What benefits will the mobile app – which is planned for 2018 – provide?

ANSWER: The additional tools that we plan to install in our mobile application and updated e-Banking platform will make our services even more convenient. For example, clients will be able to manage their card limits, update their personal and contact information, and open new accounts for term deposits on their phones. The services offered by these tools are designed to maximise flexibility and save time.



ENVIRONMENTAL MANAGEMENT

Environmental protection and awareness has been an important topic for us for many years. Over time, we have increasingly formalised our approach to managing and improving our environmental performance. Today, we have an established and comprehensive environmental management system (EMS) that is certified under international best practice standards – ISO 14001 and EMAS (Eco-Management and Audit Scheme).

Our EMS is designed to manage the direct and indirect environmental aspects of our operations. As a group that consists mostly of banks, the indirect aspects and impacts arising from our clients' operations naturally have a higher impact than our own resource consumption and management. At the same time, we see how valuable the continuous improvement of our internal resource consumption is, as we recognise that it supports the spread of green technologies in our countries of operation. Therefore, we have set up an EMS with three pillars to manage all our environmental aspects and impacts.



Pillar I

Internal environmental management

Our approach to internal environmental management is based on processes and procedures that help us to systematically reduce our direct environmental footprint. Through green investments in the banks' infrastructure, we support the spread of green technologies in our countries of operation. Communication about environmental issues raises awareness in our institutions and leads to improved resource consumption.



Pillar II

Management of environmental and social risk in lending

We aim to work with businesses whose activities do not harm the environment or endanger the health, safety and well-being of their staff or neighbours. Above all, we strive to acquire clients who make positive contributions towards the environment, which improves our indirect environmental impact through our relationship with clients.



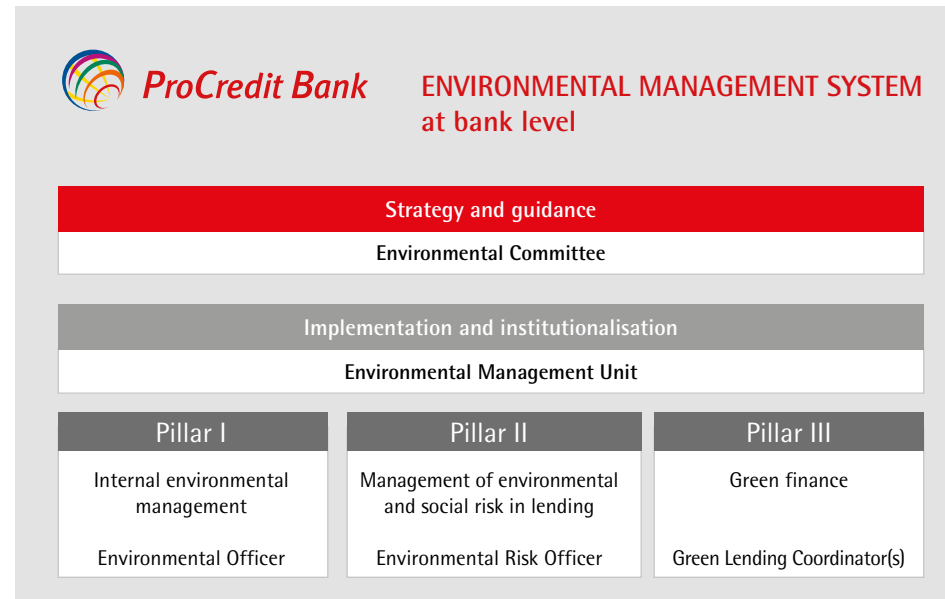
Pillar III

Green Finance

With our green finance activities, we directly promote green investments in our countries of operation and support clients who want to improve their business processes in an environmentally sound manner by investing in energy efficiency, renewable energies, or environmental protection

The EMS is upheld by the Environmental Management Unit and/or Environmental Coordinator of each institution; they are responsible for implementing the Group Environmental Management Policy. An Environmental Committee, chaired by a Management Board member, meets on a regular basis at each institution, overseeing the development of the EMS and defining the strategy. The institutional structure of the EMS is shown in the graphic.

The management of our main indirect environmental aspects (Pillars II and III) are explained in the "Prudent credit risk management" (see > page 44) and "Sustainable finance" (see > page 47) sections of this report.



Internal Environmental Management

Internal environmental management focuses on decreasing the consumption of energy, water, and paper; the production of waste; and our carbon footprint. We continually monitor the consumption of all our outlets with web-based environmental reporting tools developed by Quipu. By collecting, monitoring, and analysing our consumption data, we identify opportunities and develop Annual Environmental Plans to implement measures to systematically mitigate our environmental impacts.

To this end, in-house energy and resource efficiency measures have been implemented, including new or renovated heating and ventilation systems, efficient inverter air conditioners, improvements to the building envelope, and the installation of LED lighting, as well as print optimisation and automation processes, the introduction of waste management measures, etc. Examples of the most environmentally representative buildings in the ProCredit group include the Niš branch in Serbia, the Macedonian and Georgian head offices, the training centres in Prevalë, Kosovo and Kiev, Ukraine, as well as the ProCredit Academy in Fürth, Germany.

In addition, we pay close attention to our supply chain and the life cycle of the goods used by defining standards for procurement and waste management. All ProCredit institutions have environmental criteria incorporated into their Procurement Policies, which list procurement criteria such as materials, fair trade, and energy efficiency. These aspects should all be considered during the procurement process. At the same time, relationships are forged with sustainable suppliers. Attention is paid to local production, durability, reusability and ecologically certified food and office materials. Though the proper infrastructure for waste management is often missing or inadequate in our countries of operation, we persist in our efforts to source appropriate companies that are capable of handling separated waste and ensuring that it is recycled or reused to the greatest possible extent. 92% of our paper waste and 85% of our e-waste is recycled, and 15% of the e-waste is reusable and can be donated.

Alongside the measures we have implemented, we also educate and raise awareness among our staff. Training, campaigns, and direct communication all serve to provide employees with relevant information and contribute to environmental education, which plays a significant role in the continuing professional development of our staff.

The bi-annual Green Finance Seminar brings together members of the Environmental Management Units for discussions on the latest internal and external developments as well as on group targets. At the most recent seminar, all banks agreed that by the end of 2018, all

lighting should be based on LED technology and 50% of the vehicle fleet should consist of either electric or hybrid cars. In addition, all head offices should be equipped with photovoltaic panels if the buildings and ownership conditions allow for this.

The results of our efforts are reflected in the development of our environmental performance figures. Over the last few years, the focus was on setting standards and improving the data collection of all outlets in order to ensure reliable data quality. In combination with the optimisation of our outlet network, analysing the development of the environmental figures proved to be challenging. Because the banks improved their systematic approach to data collection, positive trends can now be seen, especially in the area of water and paper consumption, in both absolute and relative terms. Water consumption per employee decreased by 6% from 2016 to 2017 to 12.4 m³, while paper consumption decreased by 20% to 18.2 kg per employee per year.

In the last few years, in line with our aim to provide more e-Banking services and automated cash transactions, we equipped our Service Points with many more automated teller machines, deposit machines, etc. As a consequence, the energy consumption of our buildings increased in relative terms (energy consumption per employee), owing to the machines running 24/7 and to the lighting, heating, and cooling needed to ensure the comfort of our clients. Of course, we counteract this development by setting high standards in terms of energy efficiency for our buildings and renovations, awareness-raising training and communications. We are happy



Energy consumption in buildings

	2016	2017	% Change
Total (MWh)	28,417	22,406	-21%
kWh per employee	6,417	5,909	-8%
kWh per m ²	199	183	-8%
kWh per 1000 EUR LP	7.9	5.8	-27%



CO₂ Emissions

	2016	2017	% Change
Total (tCO ₂ eq)	18,095	15,627	-14%
tCO ₂ eq per employee	4.09	4.12	+1%
tCO ₂ eq per mEUR LP	5.02	4.02	-20%

that in 2017, the trend of relative energy consumption in our buildings improved. From 6,417 kWh per employee, the consumption of electricity, heating and generators decreased by 8% to 5,909 kWh. In addition, the fuel efficiency of our cars improved from 67 to 64 kWh per 100 km. We show this parameter in kWh and not in litres, in order to also include the electricity consumption of our electric and plug-in hybrid vehicles.

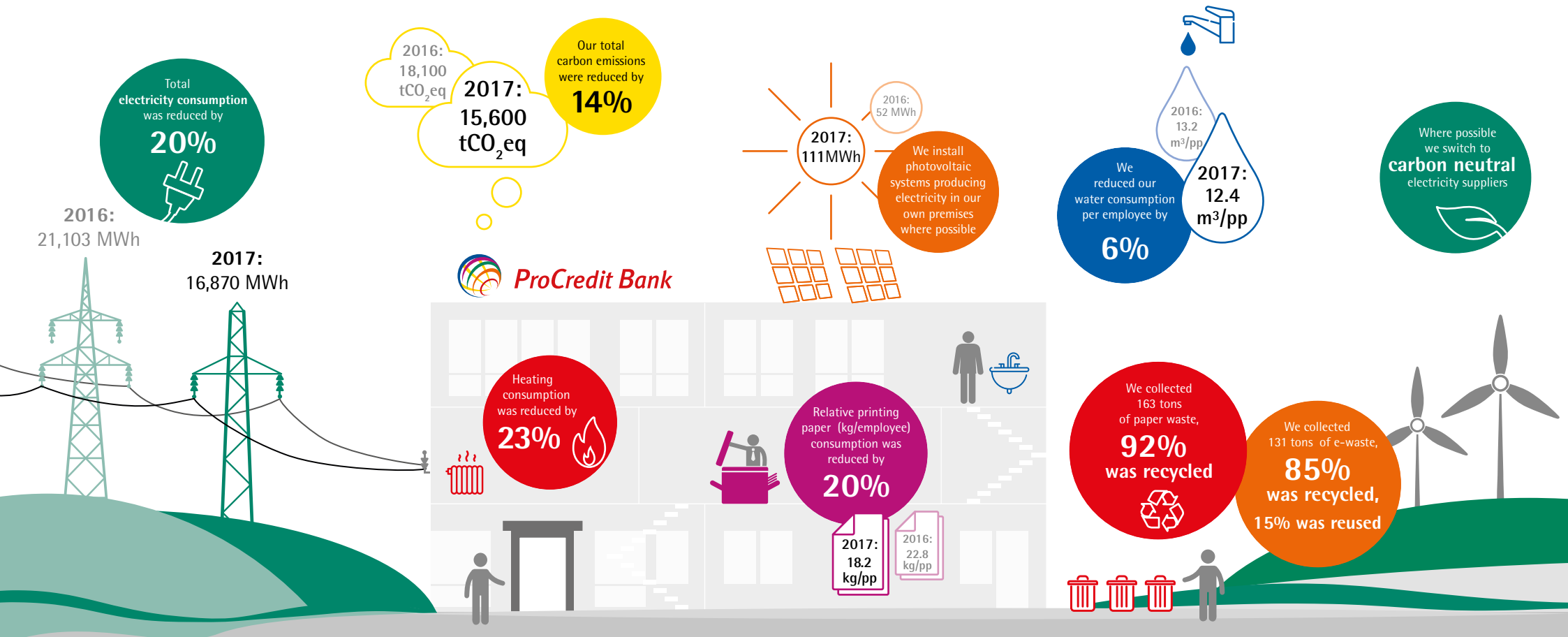
In any case, in order to reflect the change in our business model, we do not only relate our energy consumption or emissions to the number of employees or square metres, but also to our loan portfolio, which also reflects the sharpened focus on SMEs and direct

banking with an increase in volume. In 2017, we managed a larger loan portfolio with fewer resources than in 2016: we consumed 27% less energy for our buildings and emitted 20% less CO₂ per EUR of our loan portfolio.

By managing our energy and resource use in a systematic way, we not only improve our own environmental performance, but also raise awareness, contribute to the creation or improvement of infrastructure and regulations, establish and spread good practices, incen-

tivise the supply of environmentally-friendly materials and ultimately also contribute to improving the environmental performance of our partners in different countries.

Development of our environmental performance from 2016 to 2017





OUR ELECTRIC VEHICLE FLEET

Air pollution is a major issue worldwide. In particular, road transport and diesel engines contribute to high levels of particulate matter and other pollutants, causing many adverse health effects and diseases, especially in large cities. Since our business model involves frequent client visits and because public transport is not an option in all countries or cities in which we operate, it is necessary to maintain a car fleet. Of course we have established procurement criteria in order to purchase fuel-efficient cars, but we are also concerned about emissions besides CO₂.

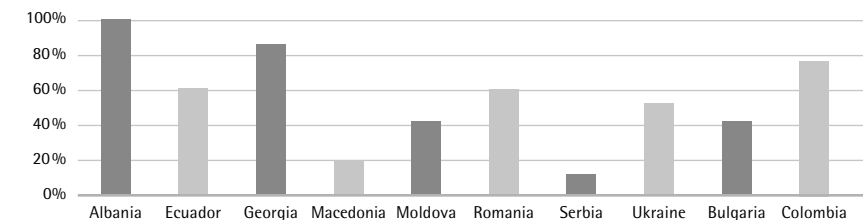
Therefore, we are phasing out diesel cars in our fleet and aim to have at least 50% of our car fleet consist of electric or hybrid cars. So far, we have brought the level to 31%. When it comes to city pollution, e-cars are preferable, but due to the occasionally longer distances that need to be travelled and the limitations of e-cars, we still rely on cars with combustion

engines. Wherever possible, energy-efficient hybrid cars are purchased.

Numbers of e-cars in Dec 2017: 58
15% of fleet

All ProCredit banks, as well as ProCredit Holding, have in the meantime invested in an e-car fleet and are eagerly promoting this technology in many of our countries of operation. In the countries with an electricity mix based mainly on renewable energies, such as Georgia and Albania, CO₂ emissions are lower for electric cars with a normal combustion engine. Therefore, ProCredit's carbon footprint is lowered and we are giving a clear signal of our commitment to mitigate climate change. In a number of ProCredit banks, we also incentivise investments in electric cars on the part of our business and private clients.

Savings in vehicle CO₂ emissions: electric vs. internal combustion (%)



OUR APPROACH TO CLIENTS

The characteristics of our core clients – small and medium enterprises – define our business model and shape our services. We want to support the development of our clients not only by offering transparent and secure services, but also by being a stable partner that directs them towards sustainable development.

More than
36,000
business clients

12.6%

Significant share of our green loan portfolio

PAR 30



High portfolio quality



In most countries, small and medium enterprises (SMEs) are still an underserved client group in terms of both the quality and quantity of appropriate financial services available to them. We observe this to be especially true for those engaged in agriculture, small-scale manufacturing, services, and industrial production. Analysing and serving these clients is time-consuming and complex, and demands a high level of expertise and flexibility. They are therefore not typically treated as a priority client group by commercial banks. Many financial institutions offer complicated products with intransparent fees and grant loans that may exceed the need or capacity of the client. By contrast, we strive to serve business and private clients with appropriate and straightforward banking services that ensure their sustainable financial development and avoid over-indebtedness.

We critically assess our clients' activities to ensure that their business is not involved in activities which are illegal, are on our Exclusion List, or are environmentally or socially harmful. As their "Hausbank", we offer clients reliable and stable partnerships, built upon transparent services and sound advice provided by our well-trained Business Client Advisers (BCAs) and Client Advisers (CAs). We protect the safety of our clients' data by implementing best practice information security standards and software in our operations.

A challenge in most transition countries is that environmental protection is often overlooked in light of the more pressing problems which play a significant role in people's everyday lives. The energy intensity of these economies and greenhouse gas emissions tend to be relatively

high (compared to the EU average), and pollution is also a major problem (see also > page 36). Therefore, the proactive promotion of a sustainable way of doing business is an integral part of our relationship with our clients.

In the following sections of this chapter, we provide more details on how we believe our particular approach supports a positive impact for our clients and countries of operation. We not only want to have a positive impact on the businesses and lives of our clients, but we also strive to support the economic, social and environmental development of the respective regions. We believe that we can achieve this through our approach to clients, focusing on the following five key topics:

- **Reliable and stable partnerships**
- **Transparent services**
- **Prudent credit risk management**
- **Sustainable finance**
- **Data privacy and information security**

RELIABLE AND STABLE PARTNERSHIPS

Our business clients value a bank that works with them as an equal partner to achieve their business goals and understands the specific issues they face. Our aim is to build a stable business relationship characterised by trust between bank and client.

We do not merely offer products, but partnership: We explain to our clients the advantages of working together and of combining their business expertise with our financial expertise to foster their development. In this regard, we do not conduct mass marketing or advertise our services and conditions aggressively to boost loan disbursement, but rather take an individual approach based on direct communication, starting with the acquisition stage.

We value direct communication with our clients, as it enables us to follow their development and discuss any challenges they might face.

This comprises regular visits to our business clients at their premises to monitor their activity and risk profile.



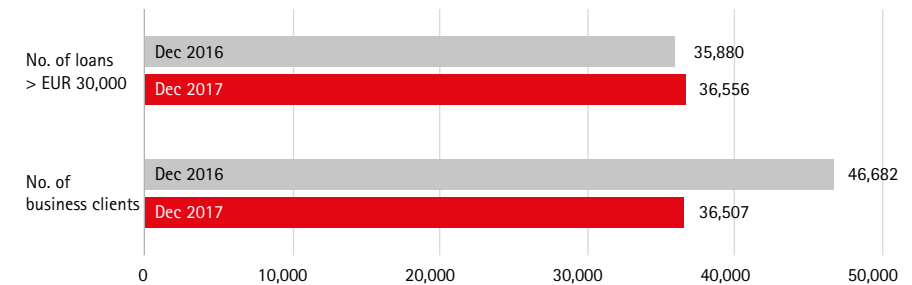
For this reason, a comprehensive "know your client" approach has been developed as the basis of our relationship with clients, and all BCAs are trained in this regard.

We select and work with our clients carefully, ensuring that they receive fair and transparent advice from well-trained staff who are not incentivised by a bonus system to push loans indiscriminately, but rather rewarded for establishing relationships, providing the right services at the right time and supporting a client's success over the long-term.

Building this type of relationship with our clients means we know how they think, plan, organise, and take decisions. This makes it easier to analyse their business activities and take decisions about the services we offer them. Before offering loans to our clients, we assess their economic and financial situation, their business potential and their repayment capacity in order to provide them with appropriate financing and to avoid over-indebting them. We expect our clients to make us their "Hausbank", meaning that they conduct all or most of their banking business through ProCredit and also deposit their liquidity with us. By working only with formalised businesses, we also encourage an increase in the degree of formality of the markets in which we operate. We support businesses with transparent and proper accounting, which is important for creating an environment that is conducive to investment and growth.

As in many other areas, the training and quality of our staff and management is essential for establishing reliable and stable partnerships with our clients.

ProCredit group's partnership with SMEs



In our regional focus on South Eastern and Eastern Europe, we support cross-border business cooperation by bringing our clients together, both on an individual level and through organised events (see > page 41).

With our private clients, we strive equally to establish long-lasting and reliable partnerships. We provide them with a fully-fledged, simple, accessible online platform with a flat fee to fulfil their personal banking needs. For us it is important we serve them responsibly – through promoting the use of bank accounts for the receipt of salary payments, offering savings services and electronic channels for payments, and providing credit facilities that support building up long-term assets, such as housing, rather than encouraging short-term consumption.

Maintaining regular communication with our clients ensures that we have a timely exchange of information and feedback and enables us to adapt our services as needed to guarantee a fruitful relationship. Apart from the designated Client Advisers, management and credit risk staff are also acquainted with our core clients. In addition, each bank has a contact centre and electronic channels through which clients can contact the bank for any inquiries, questions, or feedback they may have. Complaints are handled with care and are seen as a source of information and ideas on how we can improve our services and technologies. The process for managing complaints is established through the Group Guidelines on Managing Client Complaints.



REALISING THE POTENTIAL OF THE REGION – SMEs JOIN FORCES

In 2016 ProCredit group brought together more than 500 SMEs from South Eastern and Eastern Europe at a business-to-business (B2B) event in Thessaloniki called “Realising the potential of the region – SMEs join forces”. The event was occasioned by the start of ProCredit Bank Bulgaria’s operations in Greece, where the bank opened a branch in Thessaloniki in November 2015. The Thessaloniki branch complements our strong regional presence in the Balkan countries. The event aimed to promote cross-border cooperation between the Eastern European and Greek SME sectors.

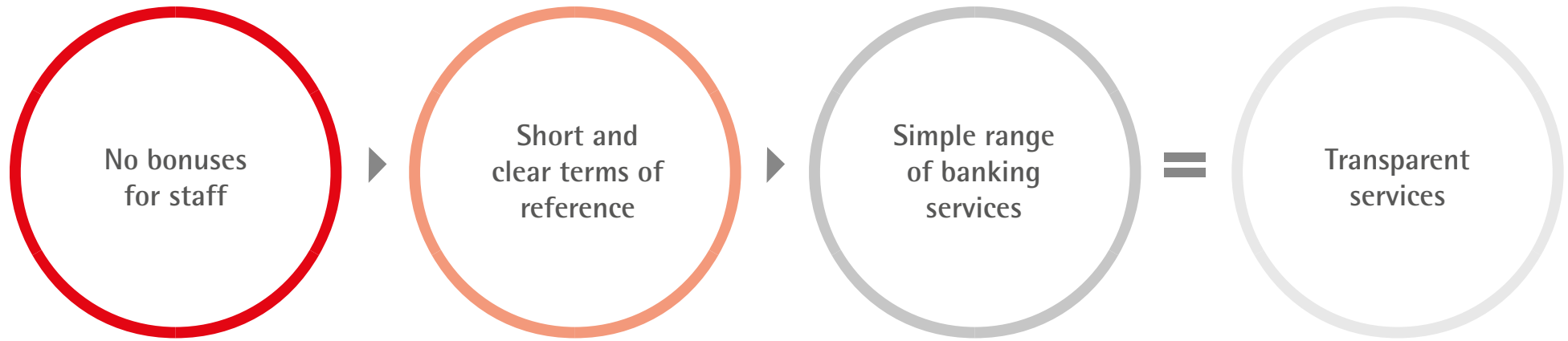
After the official speeches, B2B meetings (billed as “Meet your potential business partner”) were held to enable similar SMEs from different countries to find common interests and consider working together. The more than 500 companies, representing the production, trade, agriculture, mechanical engineering, textiles, IT and renewable energy sectors, embraced this opportunity to engage in close dialogue. In total the business owners had more than 3,500 meetings; on average each company had seven meetings, which means seven new potential markets and seven new potential partners.

During the event, clients and visitors had the opportunity to become better acquainted with the ProCredit group thanks to the 11 stands staffed by the respective ProCredit bank. The stands provided information about the banks’ services, especially the attractive conditions for payment transactions between the various countries in which the group operates. In another area of the event venue, a “Green Exhibition” presented the group’s approach to environmental management, providing examples involving both clients and staff.

This B2B gathering was the biggest event organised by our group to date. Every year, ProCredit banks put on different types of events, often with a social or environmental background. In 2017 additional B2B events were supported by the individual ProCredit banks.



TRANSPARENT SERVICES



One of ProCredit's core corporate values is transparency. We provide transparent and timely information to our clients, employees, shareholders, regulators and to the general public.

All ProCredit banks publish information that might be of relevance to our clients and other stakeholders, such as general terms and conditions and price lists, including interest rates, all loan-related costs, and up-to-date exchange rates. We do not promote loans based

on nominal interest rates and we explain the effective interest rates and all additional costs or expenses that our clients may incur. In addition, the interest rate calculation methodology for both lending and savings products (including calculation examples) is publicly available, as well as information on the banks' shareholder and management structures, managers, financial reports, etc. This information is available on the banks' websites and in their branches, where responsible staff are available to answer any questions that our clients might have.

To ensure transparency in our communication, we use clear and understandable language and avoid unnecessary complexity in all documents. By drafting documents in a complete and straightforward way, we ensure that clients with different educational backgrounds can fully understand them. Upon entering into business relationships with clients, our (Business) Client Advisers spend as much time with them as needed in order to ensure that they are fully aware of the conditions, related costs and contractual clauses. We take care to ensure that the

agreements are based on complete, transparent, and understandable information. This helps to give value and strength to a contract between parties. This approach is the cornerstone of how we build relationships with our clients and become their "Hausbank".

Although certain country specifics may apply, ProCredit banks as a rule offer the financial services outlined in the box below, representing a full range offer, particularly for SMEs. As part of our prudent approach to credit risk management, we are very cautious about issuing consumer loans to private individuals. We engage in limited lending to private households, and where we do, we aim rather to help build family assets, for example by providing housing and home improvement loans.

Main financial services



Private clients

- Current account, including card, electronic and mobile banking
- ProCredit FlexSave and term deposits
- ProCredit FlexFund
- Long-term housing
- Small investment loans



Business clients

- Bank accounts
 - current accounts
 - term deposits
 - card transactions
- Electronic and mobile banking
- Financial services
 - investment and working capital loans
 - trade finance

As transparency is a core value, its importance is shown not only in our relationship with clients, but also with our staff. We place great value on our transparent salary structure, staff recruitment and development process, regular feedback talks and open communication ([> page 52](#)).

As part of our efforts to keep our clients, staff, investors and supervisory authorities informed in a comprehensive and transparent manner, ProCredit Holding provides relevant information about the group's annual financial statements, the [> quarterly reports](#), the [> financial calendar](#), [> company presentations](#), etc., on its website. In addition, a number of group documents, such as our [> Code of](#)

[Conduct](#), [> Group Environmental Management Policy](#), [> Impact Report 2016](#) (prepared for the Social Stock Exchange) and additional materials, provide further details on ProCredit's economic, social and environmental impacts and are available on the website.

It is generally acknowledged by banking regulators in our countries of operation that ProCredit banks apply high standards for transparency and international best practice banking. In these terms, ProCredit contributes to the banking sector's stability and trustworthiness and to the development of responsible and transparent standards in the markets in which we operate.

PRUDENT CREDIT RISK MANAGEMENT

The markets we operate in are mainly transition economies and developing countries which are often characterised by businesses with a high level of informality and a low degree of enforcement of environmental and social standards.

Therefore, it has been a challenge for us to apply the high standards of credit risk management that are expected in developed markets. However, the ProCredit group has been operating successfully for more than two decades in these environments, and we have developed and implemented robust processes for our lending operations. These are tailored to the risk profile of SME clients, facilitating the successful management of credit risk, as well as the enforcement of high environmental and social standards.

Responsibility for the management of credit risk lies primarily with the credit risk departments of our banks, and is governed by the Group Risk Management Committee and the Group Credit Risk Department. The Group Credit Risk Management Policy defines the responsibilities of each of these parties, and clearly states the principles and details of credit risk management.

By issuing a credit facility, the banks aim to contribute to an improvement in the economic situation of the clients and their families and hence to overall economic development. To ensure that the credit exposures granted by the banks are used in compliance with our ethical, environmental and social standards, a number of eligibility criteria have been defined in the Group Credit Risk Management Policy.

These eligibility criteria set the requirements regarding the business activity of the potential borrower, mitigate the likelihood of money laundering and terrorist financing, and consider the environmental and social impact of the potential borrower.

Financing is granted to business clients in any eligible economic sector, but we focus particularly on those involved in industry, production and agriculture. In addition, we also offer loans to private clients. Despite our inclusive approach and openness towards the many different business models of our clients, there are certain harmful practices and activities that ProCredit banks refuse to support. We do not support activities that are incompatible with our ethical values, such as manufacturing or trading in weapons or narcotics, underground mining and the like, even if such activities are legal. Clearly, activities involving forced labour, child labour, involuntary resettlement, prostitution, etc., are also unacceptable. They are summarised in our Exclusion List, which is also part of our > **Code of Conduct** and in line with the IFC's exclusion list, and we do not enter into any business relationships with individuals or companies involved in them.

Going above and beyond what most conventional banks consider as credit risk, we place great emphasis on > **managing the environmental and social (E&S) risk in lending.**

It is an important pillar of our environmental management system, which aims to reduce the banks' indirect environmental impact caused by their lending activities. All business clients that receive financing must comply with the environmental and social standards as set forth in the Group Standards for Managing the Environmental and Social Impact of Lending. As environmental risks may turn into financial risks for the client, effective environmental and social risk management reduces credit risk and supports the sustainable development of our clients.

Environmental and social risk of lending

Our efforts to minimise E&S risks are not based on simple scoring systems. Rather than simply refusing to do business with companies because they do not score well with regard to certain criteria, we prefer to engage them in dialogue to discuss how our services can help to improve their environmental and social performance in an economically sound way. We have implemented a three-step process for managing the E&S risk of lending in line with the credit cycle, in which we:

1. Screen the client's business activities against our Exclusion List.

2. Use a predefined list to categorise the client's activities according to the degree of environmental, health and safety risk.

3. Conduct an on-site individual environmental and social risk assessment.

To guide our staff in the analytical process, we have designed an E&S risk categorisation system based on international standards that assigns individual economic sectors to the high, medium or low environmental risk category, depending on their potential environmental and social impact. Companies with business activities that fall into the medium or high risk categories are subjected to an individual assessment of their performance with regard to environmental, health and safety issues. An assessment of the social conditions in a company is carried out for all business clients in order to ensure that proper working conditions are in place and that labour and human rights are respected.

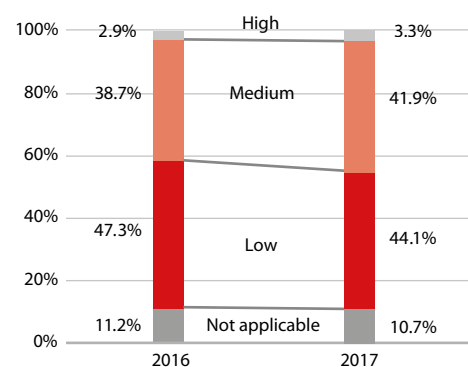
For the assessment of environmental risks, bank staff are supported by a sector-specific assessment form and guidance notes which highlight the particular risks for each sector. This allows our staff to better understand the processes and detect any possible issues, at which point they can discuss with the clients measures to improve the environmental and social performance of the business.

The purpose of this assessment is to make sure that the company's owners are aware of all environmental, health and safety issues, and that appropriate processes are in place to manage any risks. We foster active discussions with our clients to point out new investment options or changes in common practices that can help them increase their resource efficiency and sustainability. In particular, we look at legal compliance; management of land, waste, water, soil, emissions and hazardous substances; site

safety and social integrity. To this end, we interact with all our clients directly and conduct on-site visits to strengthen the relationship.

Responsibility for assessing the environmental and social compliance of our customers lies with either the Business Client Advisers or Credit Risk Officers conducting the E&S risk assessment on-site. For clients with a business activity classified as carrying a high environmental and social risk, an additional opinion is prepared by the Environmental Risk Officer, who is a specialised member of the Credit Risk Department. The credit committee takes the final decision on whether the loan is approved or rejected, and whether additional conditions or covenants have to be agreed on to improve the situation on-site. Our environmental and social risk management system has been set up in accordance with the performance standards of the IFC (International Finance Cooperation) and the EBRD (European Bank for Reconstruction and Development).

Loan portfolio by E&S risk categories



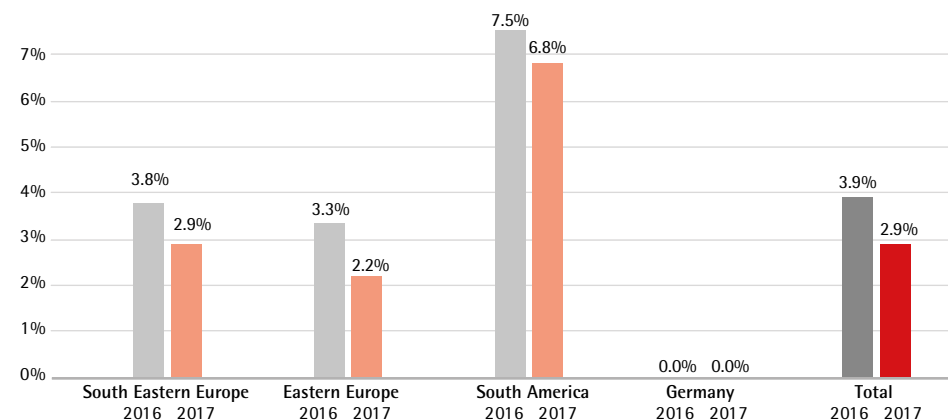
Within the group, 44.1% of the financed activities have a low environmental risk and 41.9% of the outstanding volume is allocated to activities with a medium environmental risk; 3.3% of the loans go towards financing activities with a high environmental risk (the remaining 10.7% of the total portfolio volume is accounted for by loans to non-business clients, for which the E&S risk category is not applicable). Due to the fact that we target clients in the agriculture and manufacturing sectors, the share of medium and high E&S risk clients is increasing. That is not to say that clients in these sectors necessarily pose a greater credit risk, but merely that a more specialised assessment system is required to analyse the complexity of their business activity

On the whole, we assess the credit risk level of our portfolio as well managed, considering the continuous favourable development of the main portfolio quality indicators, such as Asset Quality Indicators (AQI), net write-offs, recoveries and restructurings. Concentration risk in the Upper Medium segment and in our countries of operation is mitigated adequately with sufficient loan loss provisions¹, collateral, timely monitoring and in-depth client relationships. The overall outlook is assessed as stable due to the internal measures we have implemented with regard to collateralisation and provisioning, as well as to the stronger focus on the core SME segment.

For example, one indicator of portfolio quality, the PAR 30² of our portfolio, further improved this year in comparison to 2016, standing at 2.9% at the end of December 2017.

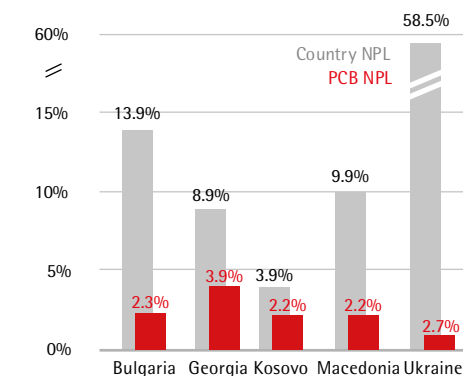
The coverage ratio for PAR 30 (defined as total loan loss provisions divided by total volume of PAR 30) stands at 112%, which we assess

Group loan portfolio at risk (PAR 30)



as a satisfactory level. Furthermore, the banks of the ProCredit group are noticeably better positioned in terms of total non-performing loans (NPL) relative to the total loan portfolio compared to the markets in which we operate, which is an additional portfolio quality indicator.

Percentage of non-performing loan portfolio of PCBs in comparison to local banking sector³.



¹ Loan loss provisions are defined as the funds a bank sets aside to cover potential losses on loans.

² PAR 30 is an indicator of portfolio quality, defined as loan portfolio at risk (> 30 days in arrears) divided by total loan portfolio.

³ Data for the different countries is subject to different NPL definitions and is not updated simultaneously, making the comparison between the countries difficult. However, within the same country, the same definition is applied. The latest available data for each country is presented in the table. The source of each country's NPL figure is the respective central bank.

NENAD PLAZIBAT, RESPONSIBLE FOR GROUP CREDIT RISK MANAGEMENT, ON E&S RISK MANAGEMENT IN THE GROUP

QUESTION: What is the role of your department with regard to E&S risk management?

ANSWER: The assessment of the E&S risk of our clients' activities is an integral part of our overall credit risk management strategy. We are responsible for setting the group-level framework for assessing this risk so that our banks can establish clear processes for performing a comprehensive analysis. The processes must not only add value to overall credit risk management, but also promote long-term relationships with our clients. To ensure that the framework functions, we support the banks by building expertise, sharing best practices and experience, and training their staff.

QUESTION: How are E&S risk assessments carried out in the group?

ANSWER: First, all clients are screened against our Exclusion List, which strictly forbids financing or even establishing business relationships with anyone who engages in environmentally and socially harmful activities. Second, we assess the risk for all clients individually, with a more thorough assessment for business activities that carry a medium or high risk. The outcome of the assessment is considered in the credit decision-making process and in the subsequent regular monitoring.

QUESTION: To which issues does the credit risk staff need to pay the most attention?

ANSWER: In terms of the social risk assessment, we focus on how the employees are treated, health and safety issues, and the company's impact on the community. For environmental risk, we look at the clients' compliance with local and international standards. We also assess their capacity and willingness to implement best practices or even leading technologies. We encourage them to improve their practices in ways that both reduce their environmental impact and increase their long-term competitiveness.

QUESTION: Why is an E&S risk assessment needed in addition to the rest of the credit risk analysis?

ANSWER: As a values-driven institution, it is critical that the development we support is as environmentally and socially sustainable as possible. An E&S risk assessment is therefore indispensable. Although this entails additional processes and intensive investments in training, we believe that businesses that endeavour to mitigate these risks are in effect investing in a sustainable model and long-term competitiveness.



SUSTAINABLE FINANCE

The aim of the ProCredit banks is to contribute to the creation of transparent, inclusive financial sectors in developing countries and transition economies. A functioning and fair financial system, which enables small and medium-sized businesses to invest and expand, is especially important for economic and social development in the transition countries in which we operate.

We tailor our business approach to provide small and medium companies with responsible financial services. Today, 89% of our portfolio consists of loans to these clients (SME loans are defined as loans above EUR 30,000). Our experience has shown that the kind of SMEs we target overwhelmingly decide to invest in amounts over EUR 50,000; hence, in the future we will focus our attention on loans above this new threshold.

We attach particular importance to supporting the local production of goods and agriculture (45% of our loan portfolio is in the agricultural and production sectors), as well as to enhancing the local capacity for modernisation and innovation. In this way the transition economies in which we are active become more independent from imports and donors.

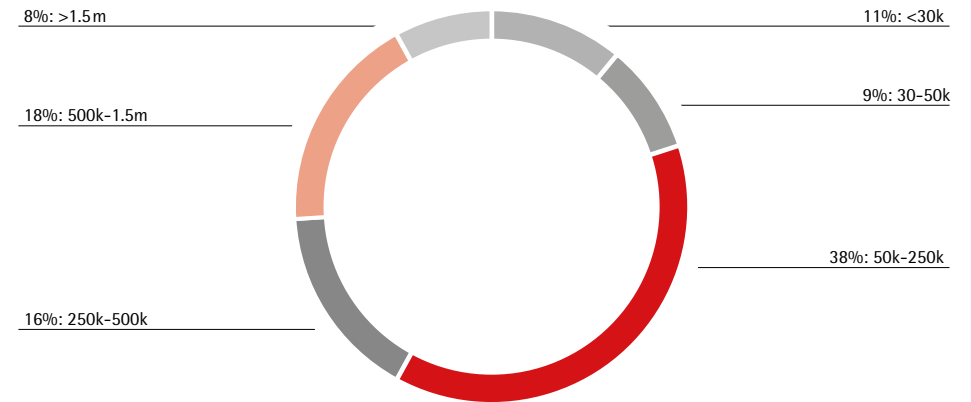
As mentioned in the section about prudent credit risk management (see > page 44), we are strict about conducting a careful business analysis as the main step in the lending process. This includes a review of the clients' social and environmental performance. In this way, we not only ensure that they are in compliance

with our E&S criteria: we also try to create opportunities to discuss and develop options for investing in sustainability with them. Keeping in mind the environmental problems and high energy intensity in our countries of operation, we wish to accelerate the adoption of energy-efficient and renewable energy technologies, as well as to incentivise and support businesses with their environmentally-friendly investments. By encouraging our clients to take a green approach to their business, we minimise our indirect environmental impact and contribute to the mitigation of and adaptation to climate change. For this purpose, we have implemented the Group Guidelines – Green Finance, which define the process and eligibility criteria for providing green finance to businesses and private clients throughout the entire group. In particular, the guidelines promote investments in:

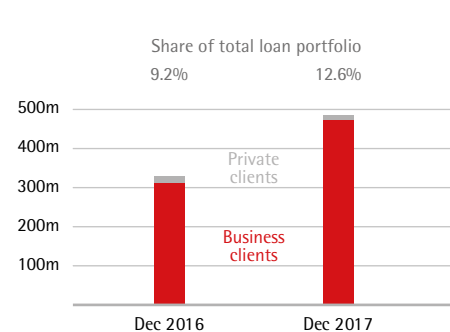
- Energy-efficient equipment and processes (EE)
- Renewable energy technologies (RE)
- Environmentally friendly projects with a direct positive impact on the environment (Gr)

From a business perspective, some of the key benefits of the investments in modern energy-efficient technologies are better quality products and services, more efficient use of energy and resources, reduced costs and increased competitiveness.

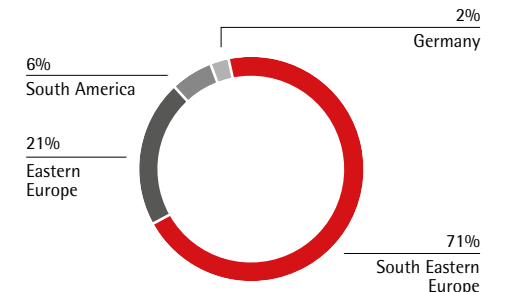
Loan portfolio by initial size in outstanding principal (Dec 2017, in EUR)



Green loan portfolio development in outstanding principal (in EUR)



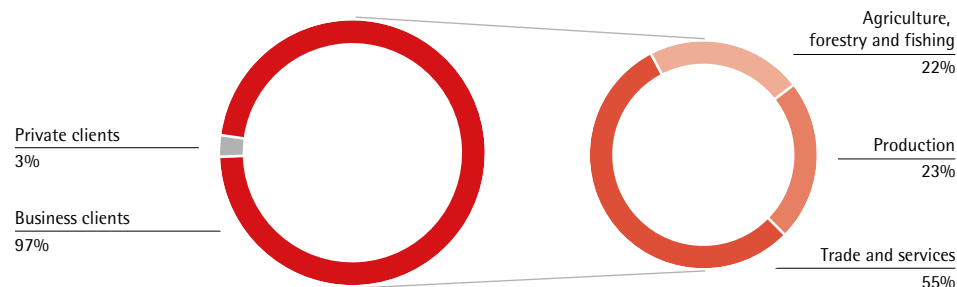
Loan portfolio by region (Dec 2017)



Providing green loans and incentivising clients to undertake investments in modern, energy-efficient technologies does not simply mean making a token effort. In the countries in which the ProCredit group operates, our banks are very often pioneers in green lending and continuously strive to engage our clients in discussions to present the benefits of such investments. Therefore, a technical specialist in each bank works to support clients in their investment decisions and analyses their eligibility for a green loan.

We also raise awareness among staff and clients about mitigating and adapting to climate change. We allocate resources to enable our banks to provide financing for renewable energy projects that contribute to climate change mitigation, such as investments in hydropower, biogas, geothermal, solar thermal and wind plants. As these complex loan structures require more attention and knowledge, all banks in the group are implementing the Group Standards for Financing Renewable Energy Projects, which encompass organisation, responsibilities, risk aspects (legal, technical and financial), disbursement, monitoring, and loan management.

Loan portfolio distribution (Dec 2017)

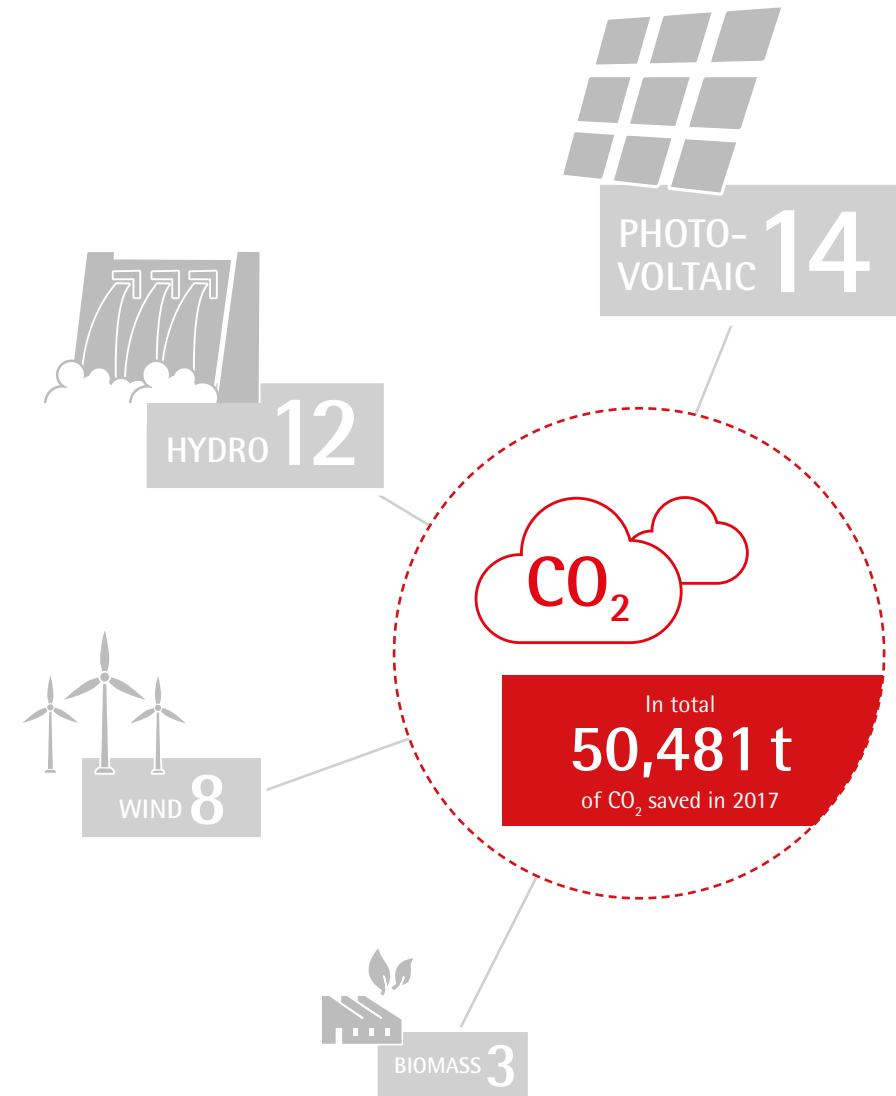


A coordinated approach and established procedures help ensure the proper set-up and support for financing renewable energy projects. Though the legal structures and feed-in tariffs for renewable energy sources are just developing, we believe that responsible financing of these projects will benefit the whole market.

ProCredit's green finance products are not dependent on external funding lines that have a limited scope in terms of funds and timeline. On the contrary, these investments can be financed sustainably with our own funds, ensuring that our clients always have the option of obtaining green loans.

Green loans represented more than 12% of the group's loan portfolio at the end of 2017, and we intend to keep aiming higher, with a goal of reaching 15% in 2018. To achieve this target, the bi-annual Green Finance Seminars, attended by members of the Environmental Management Units and the senior management of the banks, provide a platform for exchange on current trends and knowledge-sharing about best practices. The seminars also allow us to continue to develop our approach to green finance.

Number of financed RE projects ≥ 0.5 MW



OUR CLIENTS' GREEN INVESTMENTS



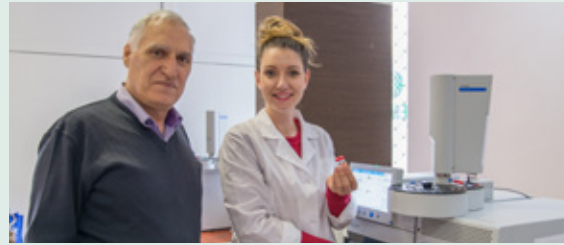
Ecuador: GasGreen S.A.

Producing electricity with biogas

Although it is widely accepted that landfills have a negative environmental impact, they are still the most common form of waste treatment in many parts of the world. However, in the case of the Municipality of Quito in Ecuador, landfills are being used as a source of renewable energy.

In 2015, the company GasGreen S.A., which initially specialised in the treatment of residual water and leachates, began expanding its activities to include biogas production. By investing in a biogas plant with generators with a capacity of up to 5 MW, the company was able to generate electric power by capturing and burning biogas produced in the landfill through the decomposition of organic matter.

The investment in the biogas plant, which was financed by ProCredit Bank Ecuador, enables GasGreen to contribute to the protection of the environment by capturing methane and transforming it into the less harmful gas CO₂, while at the same time generating income through the sale of electricity from waste as an energy source.



Bulgaria: Lemna Ecoinvest A.D.

Actively providing ecological services

As is the case with many countries in South Eastern Europe, the treatment of wastewater is also a challenge in Bulgaria. One way to overcome this challenge is by building wastewater treatment facilities.

For many years now, Lemna Ecoinvest A.D., a client of ProCredit Bank Bulgaria, has successfully designed and supervised wastewater treatment plants, having already completed many projects for local municipalities and private companies. Besides its engineering and design activities, Lemna Ecoinvest also tests the quality of air, water, and soil, in addition to performing laboratory tests for water pollution and providing services for environmental impact assessments, project evaluations and investment proposals.

ProCredit Bank Bulgaria recognises and encourages activities that support the conservation of natural resources and has actively supported the company as its "Hausbank" for many years. A recent example is an investment in new equipment that enables the company to analyse pollutants with greater precision as well as to increase the range of services it provides.



Kosovo: Pestova SHPK

More efficient solutions in food production

The company Pestova SHPK has been operating in the agricultural and food industry for more than two decades. The company's activities encompass the farming and processing of potatoes along with the production of potato-based and other snacks.

Recognising that efficient production processes are an integral part of its development, the company continually invests in the improvement of its equipment and facilities. Recently, the company invested in a new cogeneration system that allows heat losses during the boiling and cooking processes to be reused for space heating and other production processes.

With this investment, the client has decreased the use of liquified petroleum gas (LPG) by 25%, resulting in annual LPG savings of around 65,000 kg. Not only has this investment resulted in energy and monetary savings, but it has also had a positive impact on the environment, reducing CO₂ emissions by around 196,000 kg annually. As the company's "Hausbank", ProCredit Bank Kosovo has financially supported Pestova's investments for many years now.

DATA PRIVACY AND INFORMATION SECURITY

Digital banking is a central topic for us. This development comes with significant opportunities for us and our clients, but at the same time poses challenges with respect to data, information and payment security. The stability and reliability of our digital platforms is crucial for our clients.

We therefore place great importance on ensuring the security of our clients' data – our information assets – both in our systems and in the way our employees handle this private information every day.

The topic is governed internally through group policies on IT infrastructure, business continuity and information security, including data security. These policies are aligned with the EU and German regulations on risk management and IT (MaRisk and BAIT) and with industry best practices. These stringent standards are implemented in all our banks, which also comply with the applicable local protection laws and banking security provisions. All banks have Information Security Officers and established Risk Management Committees, headed by a management board member. The Information Security Officers serve as a point of contact for all employees in information security matters, combining technical security skills with a clear understanding of the bank's business processes. Any risks related to information and data security are directly reported to the management boards of the banks and ProCredit Holding, ensuring that decisions on mitigation measures can be taken immediately.

Our data protection principles

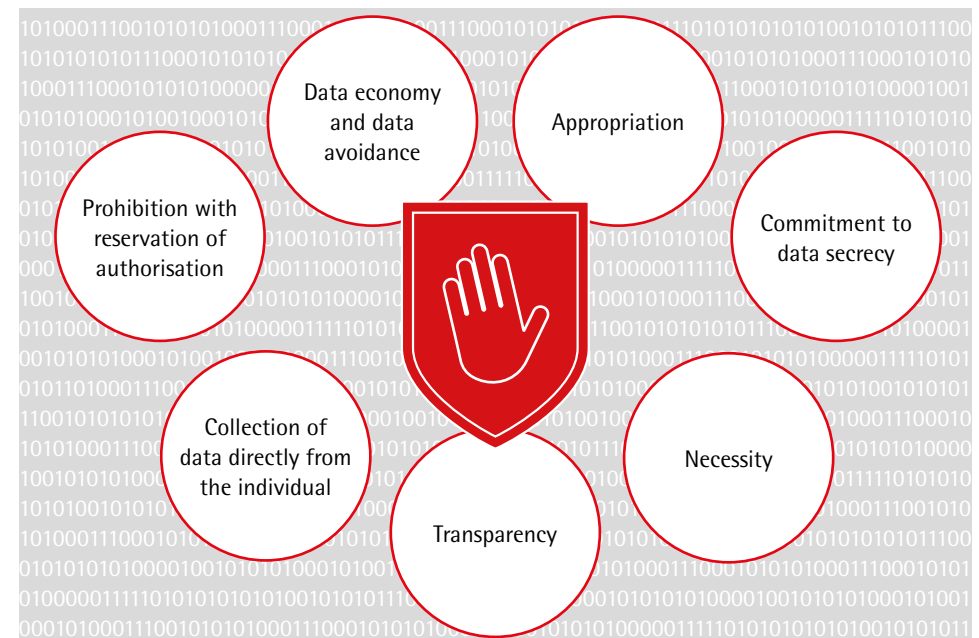
Our IT infrastructure, information security and business continuity are subject to regular checks by IT experts from our Group Internal Audit team. In addition, vulnerability checks are performed regularly to test the group's level of protection against external manipulation. We are continuously working on improving our processes to protect our information assets. Data security checks are integrated into all relevant procedures and the security level of information assets is categorised annually according to risk, priority, owner and criticality.

As most security breaches are avoidable through simple or intermediate controls, such as training and policies, we focus on setting up practical, easy-to-follow procedures and instructions, as well as educating employees on best practices. Regular risk awareness training on information and data security is conducted for all employees in all our institutions, and specialised training is provided to the Information Security Officers at least annually. In addition, the strong sense of personal responsibility expected of all employees also applies to the handling of our clients' data. Misuse of private data by our staff is not tolerated.

All information and data security incidents are recorded in a central database, the Risk Event Database, to ensure that all incidents identified by our staff, authorities or clients are documented, analysed, resolved and communicated effectively. If new IT systems are implemented or existing systems are changed, risks related to

information security are analysed and mitigation measures are developed. In 2017, we recorded a total of only seven incidents in our group related to information security. Most of them were related to small issues, so we therefore believe that our structures for the prevention and management of these issues are functioning effectively.

Data protection principles



IT software and hardware support for the group is provided by > [Quipu](#), the group's IT service company. In 2015, ProCredit Holding initiated a process of centralising the management of the banks' data centres and their IT systems at Quipu Frankfurt. This enhances the availability of data, reduces costs, and increases efficiency by achieving standardised IT services across our group. The centralised environment provides modern security tools, including firewalls, intrusion detection and prevention solutions, data and traffic encryption, identity management, log monitoring and security event management.

The Quipu Processing Centre is responsible for card payments and is certified according to established standards related to the security of card payments, quality management and IT service management (e.g. ISO 20000, ISO 9001, PCI-DSS, PCI CPP). It is regularly audited for compliance with these standards as required by Visa and MasterCard. In 2017 Quipu received ISO 27001 certification for its information security management of the Processing Centre and the cloud services. These certifications testify that our clients' card transactions are managed with the highest degree of security.

Our information security management



1 Data Loss Prevention (DLP) Systems

OUR APPROACH TO STAFF

Our employees are the heart of our group. In order to have a functioning business model and provide appropriate services to our clients, we ensure a safe and fair working environment and develop our employees to carry forward our values. A deeply thought-through approach to our human resources is central to everything we do.



550

staff graduated from or participating in the ProCredit Academy

EUR 6.9
MILLION

invested in employee training



51% men
49% women

Diversity of our management boards

We believe that the success of our business strategy and our ability to deliver valuable services to our clients largely depend on the skills and attitude of our staff, as well as on our ethical approach to banking. This ethical approach is integrated into all of our activities and is reflected in the group's policies and standards, as well as in our > **Code of Conduct**, which applies to all employees. We respect the fundamental principle of human dignity and our staff are all treated equally, without any form of discrimination based on ethnicity, gender, religion, origin, sexual orientation, or age.

Fairness and openness are the key distinguishing features of our recruitment process. In the countries in which we operate, hiring and recruitment processes often lack a transparent and collaborative candidate communication strategy. The candidates appreciate our transparent and merit-based process, which treats every applicant the same way.

Our approach to staff development is also drawing the attention of the wider banking sector and other businesses, as it emphasises the importance of investing in ongoing professional development. At ProCredit, we provide all our employees with continuous training and support them with regular dialogue and feedback. At the heart of ProCredit's staff development is the ProCredit Academy in Fürth, Germany. The Academy provides workshops, seminars and training courses for staff from all levels of the company hierarchy; it also hosts the Banker Academy and the comprehensive top-level management programme. Regional training centres support staff training with seminars and workshops for all key business areas, with regular exchanges among staff members within each region to foster the transfer of technical skills and specialist knowledge, and with the Onboarding Process for new colleagues. Our training curriculum includes

not only banking skills, but also and above all courses on the humanities and values to help our staff to reflect on their own role in society and to emancipate themselves from ready-made ways of thinking.

Our investment in training over the years and the resulting ability to respond quickly to changed circumstances has placed ProCredit in a strong position to be able to adapt effectively to the volatile operating environment which generally prevails in emerging markets, and particularly following the financial crisis. With employees who are innovative, have a strong sense of solidarity among colleagues and who share the same vision and values, we are ready to overcome future challenges.

With regard to our approach to staff, we have defined three key topics that will be described in more detail in the following sections:

- **Ethical values and working environment**
- **Fair recruiter and employer**
- **Staff development**

ETHICAL VALUES AND WORKING ENVIRONMENT

Treating colleagues and clients, as well as the societies and environments in which we work, with respect and a long-term perspective is central to our philosophy of development and our definition of success.

Our understanding of development goes well beyond the traditional concept of profit maximisation. Instead, it promotes free speech, respect for fellow human beings, social justice, ecological awareness and ethical behaviour.

To guarantee this concept of development, we need responsible employees and an open and constructive dialogue within the institution. A true appreciation of this stimulating working environment and an eagerness to contribute actively to the common good, the res publica, is anchored in the fundamental principle of human dignity, and thus to the success of the group.

This is reflected in our > **Code of Conduct**, which is much more than a set of predefined rules and standards. It is rooted in the key principles of what constitutes the ProCredit res publica. Our daily reality and the environment in which we work and take decisions are based on this foundation.

Respecting human dignity and striving to build relationships with colleagues, clients and third parties are only two of our key principles. In this regard, our employees are expected to avoid any form of discrimination and build relationships based on mutual respect. Another key principle is having a strong sense of personal responsibility, by acknowledging

that each of us has to take responsibility for any decisions taken. Statements like "I have no choice" or "I've got to do what I am told" are no excuses. This means showing a strong sense of ownership by feeling responsible for both our duties and the quality of our work. The same importance is given to the principle of long-term commitment, which implies a constant eagerness to develop professionally and personally.

Furthermore, these five principles form the "ethical compass" of the ProCredit group and keep us firmly on course, especially when checking the appropriateness of our policies and actions as a group. Our mission statement, our > **corporate values**, and our sustainability strategy form a strong sense of social and environmental responsibility, as well as a commitment to act ethically and sustainably at three levels: at the economic level by supporting SMEs; at the social level by being a fair employer; and at the environmental level by adopting an ambitious ecological approach, including internal and external activities.

Our corporate values

Personal integrity

- Honesty and integrity
- Fair and just treatment irrespective of differences
- No discrimination or harassment
- Promotion of diversity

Social responsibility

- Customer relationships: ethical business practices, no discrimination
- Anti-Money Laundering and "Know your client"
- Environmental awareness

Transparency

- Clear business conditions
- Clear HR structures

Professionalism

- Personal responsibility
- Knowledge of policies and accuracy of information
- Internal control
- Respect for company property
- Use of the ProCredit name
- Confidential information
- Inside information and insider trading
- Outside activities
- Corruption and fraud

Open communication

- Internal and external communication
- Conflicts of interest
- Speaking out



The principles are not just ideas written on paper; they are also present in our everyday environment and shared by our staff.

To make sure that current and new employees fully understand and comply with all of the principles, our training programme includes sessions specifically dedicated to the > [Code of Conduct](#). Regular refresher sessions, as well as discussions with other colleagues and managers in each bank and at the > [ProCredit Academies](#), help to ensure that employees remain aware of and committed to our high ethical standards and are kept abreast of new issues and developments which have an ethical dimension.

The Code of Conduct naturally applies to all employees of the group without exception, i.e. to employees of the ProCredit banks in all countries of operation, of ProCredit Holding, of the ProCredit Academies and of Quipu. It forms an integral part of every employment contract. Although the ProCredit institutions are located in different countries, the Code of Conduct is only available in the English language, in order to ensure a common understanding of it across the group. In this manner, the principles of the Code of Conduct can be effectively transmitted, understood and embraced in the exactly same manner by all employees in our countries of operation.

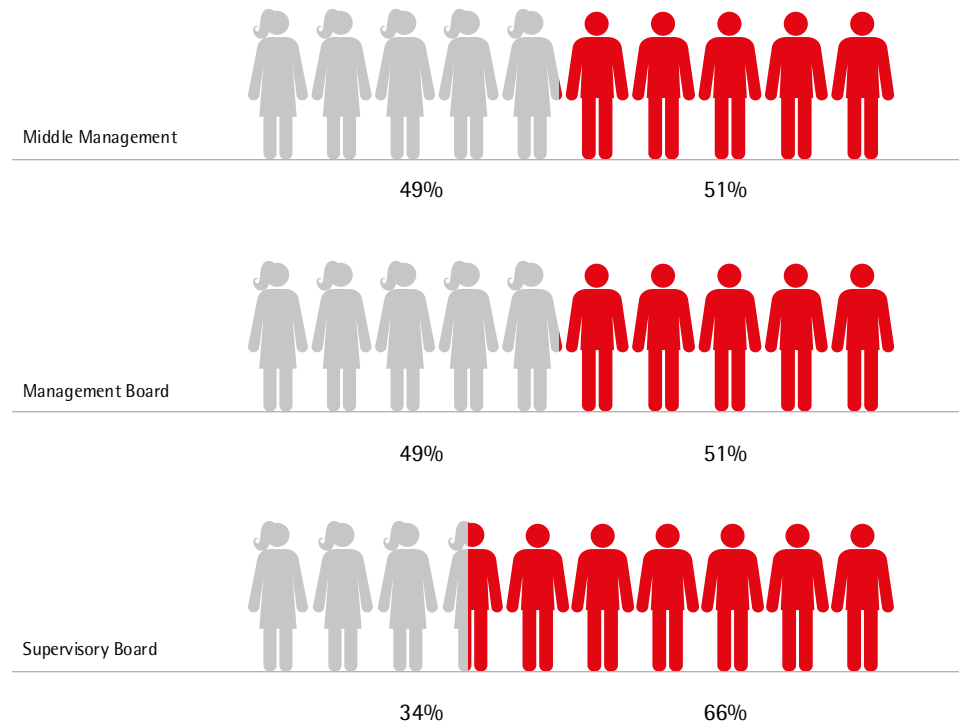
Our Code of Conduct is publicly available and can be found on the > [ProCredit Holding website](#).

These values and our way of doing business are shared and continuously promoted by all our senior managers in the different ProCredit institutions. These managers are a strong asset of the group: their long-term commitment, shown by long-term service averaging more than 12 years with the ProCredit group, coupled with the fact that they come from our

regions of operation, contributes to the organisation's ability to understand local needs. Of equal importance to us is the balanced gender distribution in both the senior and middle management levels within the institution: 49% of the members of both management boards and middle management are women.

The staff assessment system, which is an effective dialogue and one of many communication lines, allows for discussions about personal development, and is where ideas and suggestions from staff can be exchanged and are appreciated.

Diversity of management in Dec 2017





SOCIAL INITIATIVE OF THE STAFF OF PCB BULGARIA

The non-profit association > **PROtegni Raka**¹ was created in 2004 by the employees of ProCredit Bank Bulgaria. Its mission is to support children with serious health conditions who are orphans or from disadvantaged families.

Apart from the employees of ProCredit Bank, the charity initiative can be joined by clients and partners of the bank, as well as anyone willing to support the cause.

Over the 13 years of its existence, the association has helped over 1,800 children, providing them with high-quality medical treatment locally and abroad.

The donated funds raised by PROtegni Raka to date total over EUR 750,000. More than 70% of the employees of ProCredit Bank make monthly donations and engage as volunteers in the different initiatives to raise additional funds. The charity events organised by the association motivate more and more clients and partners of the bank and supporters of PROtegni Raka to join the cause with one-time or regular donations.

Aside from collecting donations, PROtegni Raka organises various charity events and initiatives, such as the PROtegni Raka Travelling Theatre, the ProMusic Club, A Chef for a Day, and the annual Traditional Christmas Bazaar.

The PROtegni Raka Travelling Theatre, for example, consists of bank employees with big hearts who put on theatre plays in support of the charity. The initiative was launched in 2012 with a performance of Antoine de Saint-Exupéry's "The Little Prince", followed by "Miracles, Marvels or the Wonderful World of Fairy Tales", based on the Andersen's Fairy Tales, and "Fallen Leaves of Faith over Wild Roads", based on stories by Nikolay Haytov. By the end of 2017, the Travelling Theatre had given 116 performances in 42 Bulgarian towns and had raised more than EUR 175,000. All funds raised were given to the little friends of PROtegni Raka to put the smiles back on their faces. The charity initiative continues its mission to donate little health to children in need in 2018 and beyond.

¹ Bulgarian for "lend a hand".



27 children received assistive devices through PROtegni Raka in 2017



98 children received funds for therapy or were operated on through PROtegni Raka in 2017

FAIR RECRUITER AND EMPLOYER

Unemployment is a serious problem in our countries of operation. "Who you know" often counts more than what your potential is, and salaries and career paths are unclear for staff. To counteract this, we apply a deeply thought-through approach to human resource development, which is central to our business model. Ethical banking can only be successful if we have employees who identify with our values and goals, and actively pursue them.

At ProCredit, your attitude and commitment to sharing the same values as the group matter more than your professional background. That we look for people from a wide range of different backgrounds, which might have nothing to do with finance, shows that we do not conform to the stereotypical notion of banks. People with different educational backgrounds, or with professional experience in different fields, sometimes respond to challenges with constructive and innovative solutions that an economist might never come up with. We look for people who are willing to learn and share, interested, curious and team players.

To get a clear understanding of ProCredit as an employer and to learn more about our staff, please refer to our brochure > [Working for ProCredit](#).

To identify applicants who share the same values as the group, we apply a transparent and well-structured selection procedure. All potential new recruits are required to go through a seven-step selection process, from an online application to a two week workshop on the

group's strategy and ethics, which we call the "focus session".

The aim of this process is to attract and select individuals who share our enthusiasm for working with clients in a transparent, professional and friendly manner, and at the same time draw people who enjoy working in teams and who have their own opinions and do not struggle to share and discuss them. Our approach to recruitment is rigorous compared

to the norm in the countries in which we work, where the "right connections" often count more than one's abilities and knowledge.

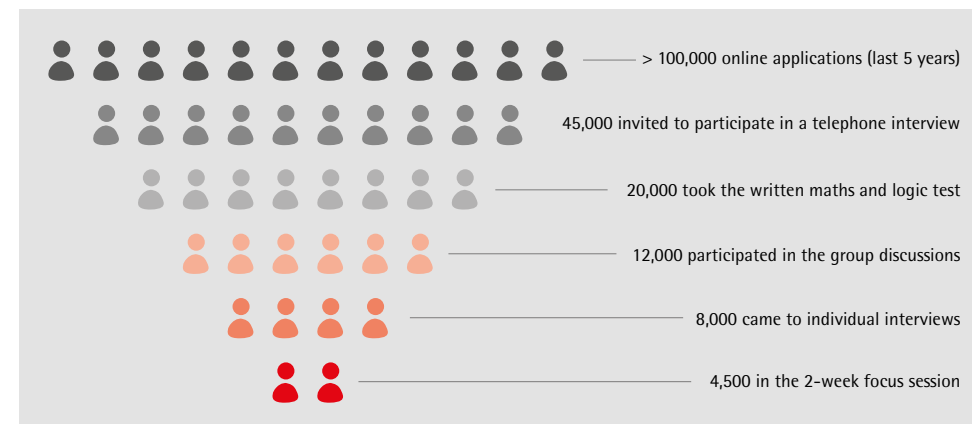
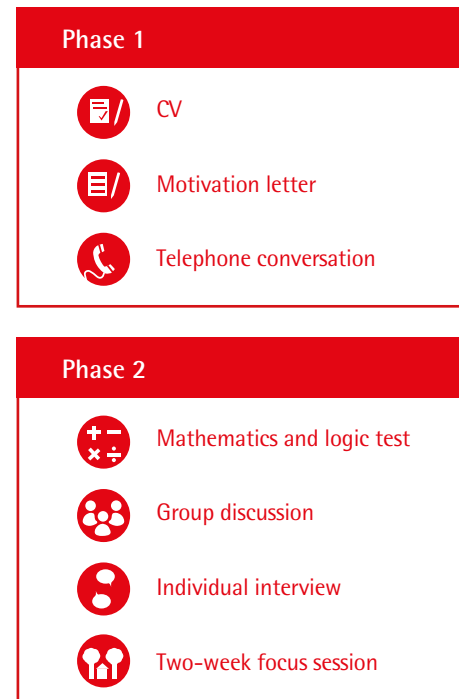
This fair approach is appreciated by potential employees and highlights the value of continuous professional training.

On average, 3% of the original applicants are offered an employment contract at the end of the recruitment process. However, even those who do not join ProCredit will have partici-

pated in a long-lasting learning experience at the end of the two-week focus sessions.

For those who become part of ProCredit, the group continues to invest heavily in a wide array of training measures to make our institutions stronger. Position-specific courses and group-wide thematic workshops ensure that each staff member gains the right skills and competencies, which ensures that communication between staff from our different countries of operation is clear.

ProCredit recruitment steps: A transparent and demanding process



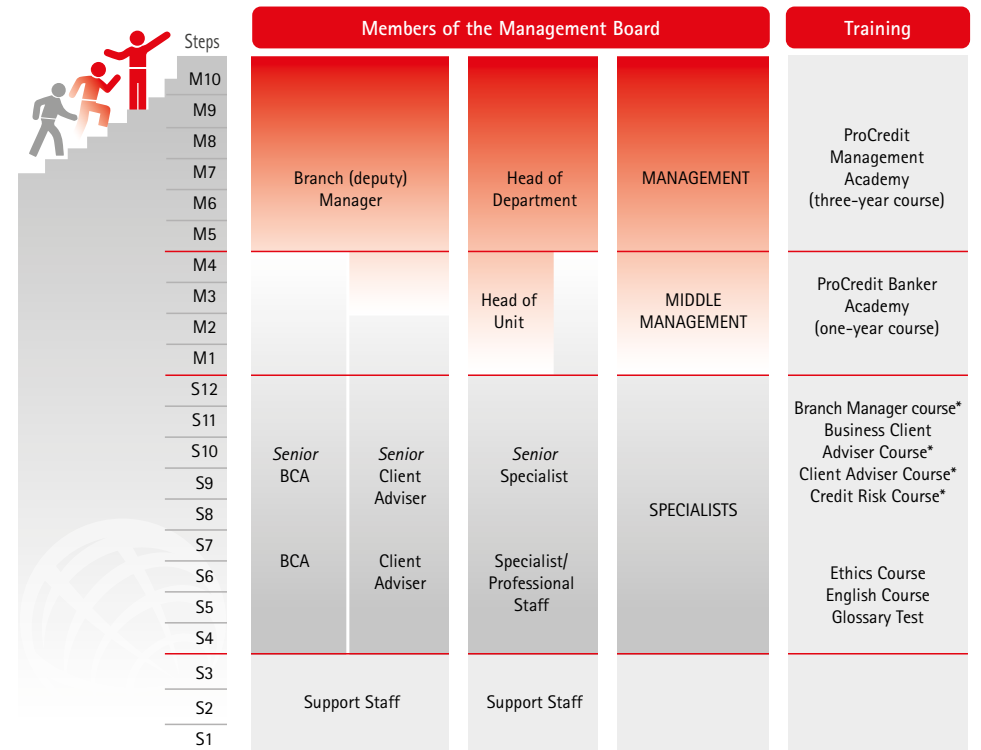
As a fair employer, we place great value on a transparent salary structure with fixed salaries and consciously refrain from the practice of giving short-term, performance-related bonuses as a supposed means of incentivising our staff. These principles are defined in the Group Remuneration Policy. We believe that this type of incentive can hinder the ability of our staff to provide responsible advice to our clients, and might even harm relationships among colleagues. Instead, we rely on clear job descriptions and regular feedback from managers to guide the performance of our staff. Our approach to remuneration is to provide longer-term prospects to employees so that they can confidently plan their life. Accordingly, more than 95% of our total staff have permanent employment contracts.

The standardised salary system includes group-wide principles, such as a transparent and visible salary structure, professional development and salary levels linked to performance and training level, or an annual salary review done by the HR Committee. The system also

specifies the training requirements for each position. More details on the annual compensation ratio as defined by the GRI can be found in the following figure, which shows the range of this ratio for the ProCredit institutions in the different regions. Overall, the ratio between the highest and median salary ranges between 2.2 in Germany to 8.5 in Eastern Europe.

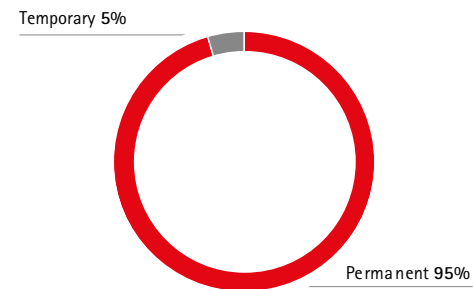
In addition to a fair salary, our staff enjoy working in an environment in which they feel they can make a difference, are respected, and can develop both professionally and personally within the framework of a long-term career. Naturally, men and women have the same opportunities in our institutions in terms of e.g. remuneration and career advancement, which is also visible in the diversity of our middle management and management boards.

ProCredit group-wide salary structure

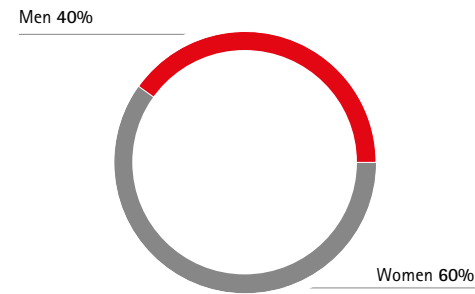


* position-specific courses

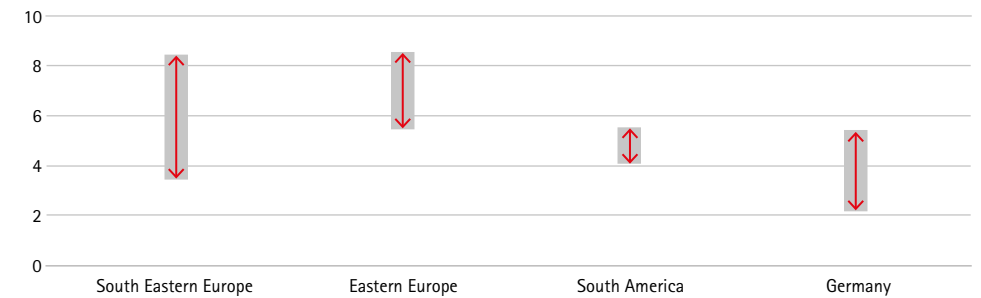
Work time schemes (Dec 2017)



Diversity of employees (Dec 2017)



Ratio between the highest and median salary (Dec 2017)





PROCREDIT ONBOARDING PROCESS

Our approach to recruitment focuses on individuals who are honest, down-to-earth, eager to learn, and who share our common values. Beyond technical and analytical skills, our staff must demonstrate personal integrity, openness and a willingness to work together with clients and colleagues.

The ProCredit recruitment process is rigorous compared to the norm of the countries in which we work. After completing the steps of a standard selection process, such as a written application, a mathematics and logic test and interviews, successful candidates are invited to attend a two-week "Focus Session". These sessions give us an impression of the social, communication and analytical skills of the applicant. At the same time,

candidates also have the opportunity to get to know the ProCredit group as an institution and employer.

At the end of this selection process, the successful applicants are integrated into the group through a six-month international onboarding process. This process covers all aspects that we believe are part of responsible banking. It is organised into three distinct modules, two of which are delivered at our regional training hubs in Serbia and Kosovo and one in the employing bank. This process is a unique opportunity for new staff to be exposed from the very start to the group identity, understand its vision and mission, and experience the banking approach of ProCredit banks on the ground.

week	month					
	1	2	3	4	5	6
1	Getting to know the bank & training for Basic Algebra	Society as operating environment	Financial Analysis	Practice (on the job)		Environment
2		Critical thinking and effective arguments	Our clients and services			Responsibility and compliance
3	Banking - global & local perspective	Development	Practice (on the job)		Our clients and services	Our identity
4	Time Value of Money (10 days)	Accounting (10 days)			Lessons learned from financial crises	Projects (2 weeks)



STAFF DEVELOPMENT

Throughout the ProCredit group, we make significant investments to ensure that staff acquire the skills they need to achieve a consistently high level of performance while maintaining their strong sense of identification with our objectives and corporate culture. Top managers are frequently involved as trainers in these training activities, sharing their experience and knowledge with participants.

The ProCredit Training Programme consists of four levels, beginning with the ProCredit Onboarding Process, continuing through advanced courses for existing staff, and – for more experienced staff and managers – culminating in attendance at the ProCredit Banker Academy and the ProCredit Management Academy. Accordingly, we dedicate considerable resources to training; in 2017 alone, EUR 6.9 million was invested in staff training.

Levels of training at ProCredit

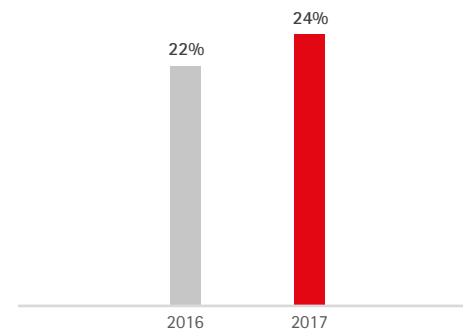
Level 1: ProCredit Onboarding Process

is the very first step of continuous long-term professional and personal development within the group. It is a great opportunity for people who already have work experience, regardless of their professional background, and especially for those who have recently graduated from university.

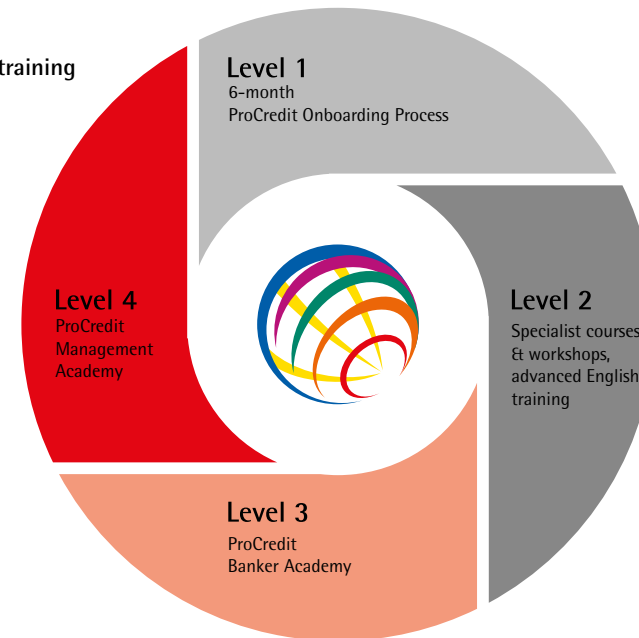
The ProCredit Onboarding Process is not conducted in conventional classroom style, where the lecturer talks and the students take notes. Instead, the majority of the modules entail working in teams, giving presentations and participating in discussions. The aim is to challenge participants to take responsibility and demonstrate how they can contribute to ProCredit.

This six-month integration covers all aspects of our approach to banking as a development-oriented commercial banking group, as well as the social and environmental aspects and critical thinking which form part of our responsible attitude. Training for all new staff from the different ProCredit banks in Europe takes place at the training centres in Serbia and Kosovo. This makes the programme even more international, gathering the staff at one place at the same time, fostering the relations and exchange of experience between the banks situated in Europe.

ProCredit Onboarding Process graduates as % of total staff (Dec 2017)



Levels of group training at ProCredit



Level 2: Specialist courses and workshops, advanced English training

Following this initial grounding, staff receive more in-depth training in the technical skills needed for their specific positions, including advanced English training.

The aim of these specialist courses is to educate our staff so that they can offer proper financial advice to our clients. The courses help them to appreciate the situation from the client's perspective and thus to determine which banking services will benefit our clients most and how best to communicate these benefits.

These position-specific courses are complemented by regular workshops and seminars organised regionally or at group level, covering all topics that are strategically and operationally important. At these events staff members have the opportunity to share their experience and ideas for improvement. To improve communication between the ProCredit banks and ProCredit Holding, regular structured one-year staff exchange programmes permit between 20 and 25 colleagues from the group's banks to spend a year in one of the teams at ProCredit Holding.

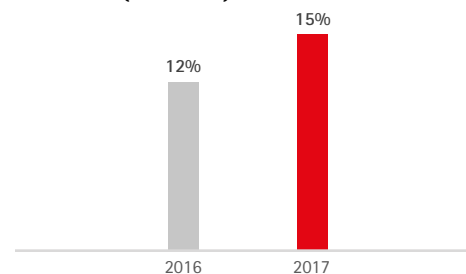
As English is the lingua franca of the group, a great deal of emphasis is placed on English proficiency. No staff member can understand the key policies and strategy documents, make valuable contributions to the numerous intra-bank working sessions, or participate in group-wide training programmes without having a good command of English. Moreover, learning and using a foreign language creates openness, curiosity and an interest in the wider world. To this end, regular six-week English courses have been provided at our academies several times per year. As a result, our staff's level of English has improved significantly.

Ethics courses are also given by highly trained in-house teachers, allowing staff to take part in intense, values-based discussions and to analyse ethical dilemmas.

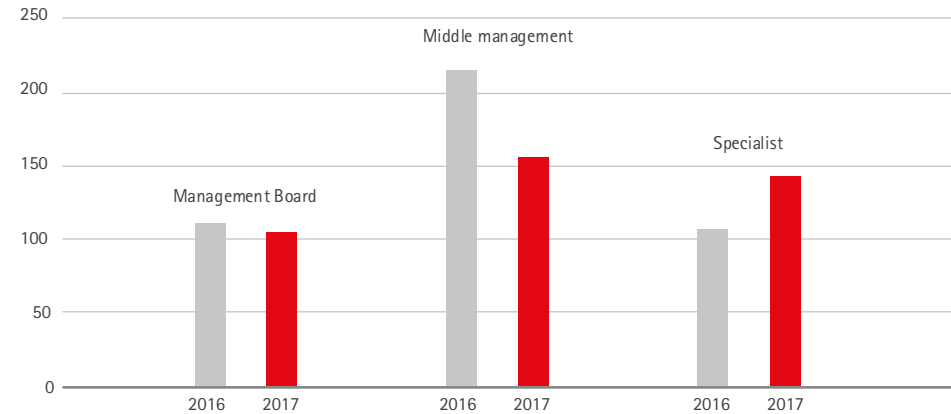
Levels 3 and 4: The ProCredit Banker Academy and ProCredit Management Academy

have developed one-year and three-year training programmes which, just like our banks, have been continually adapted in response

ProCredit Academy graduates as % of total staff (Dec 2017)



Average hours of training per year per employee



to the various challenges and changes in the environments in which we operate – be they organisational, economic, political or social.


The ProCredit Banker Academy is a key component of the phased ProCredit training programme. It fosters both the personal and professional development of promising employees who identify with us and want to advance, and simultaneously serves to identify ProCredit staff with strong management potential and prepare them for participation in the three-year intensive course at our Management Academy.

The Banker Academy programme arouses the curiosity of participants, allows them to construct an analytical framework with which they can address complex ideas and prepares them for further challenges and training both at home, in their banks and – for some of them – at the ProCredit Management Academy.

To meet the demand that comes with holding responsibility as leaders of staff, all of our managers are required to attend courses at our academies. Accordingly, the fulfilment of these requirements is demonstrated by the fact that 86% of our banks' management board members have completed in the management board training programme.

For more information regarding our academies and the curricula, please refer to the [> ProCredit Academy Brochure](#) and [> ProCredit Banker Academy Brochure](#) on the ProCredit Holding website.

Discussions about our business philosophy among our staff is essential. They are encouraged to build on their existing knowledge and at the same time challenge their preconceptions of the world, human behaviour and their role and responsibility not just to the company but to society as a whole.



More than
480,000
 total training hours
 in 2017

The corporate culture of the academies can be summed up in the concepts of tolerance and curiosity, rational thought and scientific method, solidarity and friendliness, and values and principles.

THE PROCREDIT MANAGEMENT ACADEMY

As the name “Management Academy” suggests, this institution primarily addresses the prospective management staff of the ProCredit banks. Nonetheless, we do not wish to see ourselves as an elite school. For one thing, the term “elite” is too exclusive and tends to encourage individual arrogance; for another, rather than focus solely on the formation of a management cadre, we would like to offer the opportunity of personal and professional development to a broadly diversified range of staff. This not only helps us to build our corporate spirit and our special way of banking, but also to communicate these values to a large group of colleagues.

This inclusiveness should not, however, cause anyone to lose sight of the high standards that the students are expected to meet in terms of performance and commitment. Staff members are selected for participation in the course on the basis of their bank’s assessment of their performance and personal development to date, and their achievement at the ProCredit Banker Academy and in English language courses. Upon admission to the Management Academy, the employee embarks on a cycle of 21 course blocks of two weeks each.

The aims of the ProCredit Management Academy are to generate even greater comprehension of and identification with the company among our staff, to win their active commitment to serving as multipliers of our values and our business policy, and – if the circumstances allow – to prepare them to assume even more challenging responsibilities within the company.

Bearing in mind that our group of banks has evolved out of a commitment to development aims, and that this idea has taken on different concrete forms in different countries, it becomes obvious just how much the group depends on the local staff members who represent that idea in their respective countries.

This is also visible in the high proportion of our management board members hired from the local community: in our South Eastern and Eastern European banks, this figure is 100%.





PROCREDIT'S SUSTAINABILITY PERFORMANCE INDICATORS

OUR BUSINESS MODEL

General information

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017
Number of banks	7	7	3	3	2	2	1	1	13	13
Number of other institutions	2	2	0	0	2	2	3 ¹	3 ²	7	7
Number of outlets	194	80	63	23	33	14	1	1	291	118
Number of employees	2,304	1,827	790	653	496	338	521	566	4,111	3,384

Source: Reporting Package Dec 2016, Dec 2017 (audited); HR data bases (not audited)

Audited: Partially

^{1,2} including ProCredit Holding

Key figures

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017
Total assets (in EUR million)	3,348	3,554	1,011	1,058	918	338	391	549	5,668	5,499
Customer loan portfolio (in EUR million)	2,535	2,759	709	823	307	239	78	88	3,629	3,910
Deposits-to-loans ratio	97%	91%	99%	77%	67%	67%	146%	290%	96%	91%
Profit of the period ³ (in EUR million)	54.4	45.4	21.4	26.0	-2.3	-5.5	44.0	37.1	61.0	48.1
Number of business clients	31,746	24,745	9,103	7,998	5,507	3,363	326	401	46,682	36,507
Number of loans > EUR 30,000	24,815	25,123	6,827	7,226	4,138	4,062	100	145	35,880	36,556
Volume of business loans (in EUR million)	2,210	2,393	688	796	284	226	74	88	3,256	3,503

Source: Reporting Package Dec 2016, Dec 2017

Audited: Yes (except for number of business clients and number of business loans)

³ The totals don't sum up due to consolidation

Technology and innovation

Automation of transactions

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017
Total number of transactions	3,033,537	2,694,061	1,262,517	1,049,708	200,486	157,017	2,078	3,153	4,498,618	3,903,939
Number of desk transactions	25,963	8,212	14,123	7,317	45,504	10,111	0	0	85,590	25,640
Number of electronic transactions via e-Banking	1,150,971	1,273,312	569,586	543,657	13,357	17,351	1,890	2,991	1,735,804	1,837,311
Number of daily cash desk transactions	1,180	373	642	333	2,068	460	0	0	3,890	1,165
Number of other transactions (e.g. transactions) with cards	1,855,423	1,412,164	678,166	498,401	139,557	129,095	188	162	2,673,334	2,039,823
Cash transactions as a percentage of total transactions (in terms of numbers)	0.9%	0.3%	1.1%	0.7%	22.7%	6.4%	0.0%	0.0%	1.9%	0.7%
Percentage of electronic transactions via e-Banking	38%	47%	45%	52%	7%	11%	91%	95%	39%	47%

Source: PCH Operational Statistics

Audited: No

Sustainability context

Indicator	Bosnia & Herzegovina	Bulgaria	Macedonia	Moldova	Romania	EU
Urban air pollution (PM2.5, yearly avg. concentration)	47	28	40	21	20	15

Reference year: 2015

Source: World Bank: <https://data.worldbank.org/indicator/EN.ATM.PM25.MC.M3>

Indicator	Albania	Bosnia & Herzegovina	Georgia	Macedonia	Serbia	EU
Unemployment rate (% total labour force)	15	26	12	24	14	8

Reference year: 2017

Source: World Bank: <https://data.worldbank.org/indicator/SLUEM.TOTLZS>

Indicator	Bosnia & Herzegovina	Bulgaria	Kosovo	Moldova	Ukraine	EU
Energy intensity level of primary energy (MJ/\$2011 PPP GDP)	8.8	6.3	5.8	8.2	12.5	3.7

Reference year: 2014

Source: World Bank: <http://databank.worldbank.org/data/reports.aspx?source=2&series=EG.EGY.PRIM.PP.KD&country=#>

Indicator	Ukraine	Moldova	Germany	Ecuador	Bosnia & Herzegovina	Albania
TI Corruption Perception Index (0 = highly corrupt, 100 = very clean)	29	30	81	31	39	39

Reference year: 2016

Source: Transparency International: https://www.transparency.org/news/feature/corruption_perceptions_index_2016#table

Indicator	Albania	Georgia	Kosovo	Moldova	Ukraine	EU
GDP per capita (US\$)	4,125	3,866	3,661	1,900	2,186	32,233

Reference year: 2016

Source: World Bank: <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD>

Indicator	Bosnia	Ukraine	Moldova	Georgia	Ecuador	Europe (Average value 2010–2015)
Shadow economy (% of official GDP)	29.9	42.9	39.7	53.1	30.2	22.7

Reference year: 2015

Source: Schneider & Medina (2017): Shadow Economies around the World – New Results for 158 Countries over 1991–2015

Indicator	Ukraine	Moldova	Bosnia & Herzegovina	Macedonia	Serbia	EU
CO ₂ emissions (kg per 2010 US\$ of GDP)	1.7	0.7	1.2	0.7	0.9	0.2

Reference year: 2014

Source: World Bank: <https://data.worldbank.org/indicator/EN.ATM.CO2E.KD.GD>

Indicator	EU	Bulgaria	Romania	Bosnia	Macedonia	Serbia
Value added by SMEs in 2016 (% of total value added by enterprises)	57%	66%	50%	62%	66%	53%

Reference year: 2015

Source: European Commission, Annual Report on European SMEs 2015/2016
EIB, Assessment of financial needs of SMEs in Western Balkan countries, 2016

Indicator	EU	Bulgaria	Romania	Bosnia	Kosovo	Macedonia	Serbia
Number of people employed by SMEs in 2016 (% of total employees in enterprises)	67%	76%	68%	66%	81%	76%	70%

Reference year: 2015

Source: European Commission, Annual Report on European SMEs 2015/2016
EIB, Assessment of financial needs of SMEs in Western Balkan countries, 2016

Stakeholder engagement and materiality assessment

Indicator	ProCredit Bank Ecuador	ProCredit Bank Bulgaria	ProCredit Bank Macedonia	ProCredit Bank Ukraine	Total
Number of stakeholders consulted in 2017					
Employees	64	122	68	99	353
Clients	49	102	60	95	306
Shareholder	-	-	-	-	6

Source: Stakeholder's opinions collected with surveymonkey.com

Audited: No

Result of the materiality assessment in 2017

Area	Key issues	Stakeholder input score (1-16; 16 = highest relevance)	Management evaluation score (1-5; 5 = highest relevance)
Our business model	Economic development	16.0	4
	Technology and innovation	12.2	4
	Compliance and banking regulation	9.4	5
	Corporate governance	7.4	5
	Financial crime prevention	5.8	5
	Internal environmental management	3.0	4
	Supply chain responsibility	2.6	3
Our approach to clients	Sustainable finance	12.6	5
	Reliable and stable partnerships	11.2	5
	Transparent services	9.2	5
	Prudent credit risk management	9.0	4
	Data privacy and information security	8.8	3
Our approach to staff	Ethical values and working environment	13.2	5
	Staff development	10.8	5
	Remuneration	4.0	3
	Fair recruiter and employer	2.2	5

Source: Stakeholder's opinions collected with surveymonkey.com; management evaluation conducted during the materiality workshop

Audited: No

Compliance and banking regulation

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Incidents of non-compliance with regulations and/or voluntary codes involving product/service information and labelling, as well as marketing communications, including advertising, promotion, and sponsorship										
Incidents of non-compliance resulting in a fine or penalty										
Incidents of non-compliance with regulations resulting in a warning	None		None		None		None		None	
Incidents of non-compliance with voluntary codes										
Significant fines and non-monetary sanctions for non-compliance with environmental laws and/or regulations as well as laws and/or regulations in the social and economic area										
Total monetary value of significant fines (>EUR 100,000)										
Total number of non-monetary sanctions	None		None		None		None		None	
Eases brought through dispute resolution mechanisms.										
Number of legal actions pending or completed during the reporting period involving anti-competitive behaviour and violations of anti-trust and monopoly legislation in which the organisation has been identified as a participant.										
Number of legal actions	None		None		None		None		None	
Description of these actions										

Source: Compliance Reporting Package Dec 2016, Dec 2017

Audited: No

Financial crime prevention

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Staff trained on financial crime risks										
ProCredit Onboarding Process participants	46	43	0	10	37	23	0	0	83	76
Specialists	3,010	1,482	418	271	651	511	67	75	4,146	2,339
Managers	59	35	0	0	33	0	0	0	92	35

Source: Group AML
 Audited: No

Accounts closed or client relationships terminated due to risk of financial crime

Number of closed accounts	125	120	121	117	5	7	11	7	262	251
Number of ended client relationships	21	19	5	23	3	0	2	3	31	45

Source: Group AML
 Audited: No

Internal environmental management

Environmental performance indicators

Indicator	Unit	South Eastern Europe		Eastern Europe		South America		Germany		Total		Change
		2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	
General data												
Staff ¹	No	2,520	2,152	902	700	517	412	489	529	4,428	3,792	-14%
Area	m ²	80,591	71,118	32,391	24,723	15,737	12,915	13,929	13,986	142,648	122,741	-14%
Energy												
Electricity produced (PV)	kWh	4,637	60,772	0	0	0	0	46,936	50,393	51,573	111,165	116%
Total energy consumption of buildings	kWh	16,756,485	13,502,631	7,724,096	5,987,215	1,582,477	1,212,757	2,354,058	1,703,279	28,417,117	22,405,882	-21%
Electricity consumption	kWh	13,128,385	10,850,345	5,000,493	3,920,022	1,564,867	1,211,870	1,409,269	887,612	21,103,014	16,869,849	-20%
Heating energy consumption	kWh	3,366,776	2,509,985	2,628,974	2,040,128	0	0	915,340	798,418	6,911,090	5,348,531	-23%
Generators	kWh	261,324	142,300	94,629	27,065	17,610	887	29,449	17,249	403,013	187,502	-53%
Electricity from non-renewable energies	kWh	8,657,519	7,308,979	2,614,678	2,096,434	704,352	545,322	442,704	236,563	12,419,253	10,187,300	-18%
Electricity from renewables energies	kWh	4,470,866	3,541,366	2,385,816	1,823,588	860,514	666,547	966,565	651,049	8,683,761	6,682,550	-23%
Heating from non-renewable energies	kWh	3,252,156	2,283,981	2,618,806	2,032,626	0	0	450,187	350,741	6,321,149	4,667,348	-26%
Heating from renewable energies	kWh	114,621	226,004	10,167	7,502	0	0	465,153	447,677	589,941	681,183	15%
Transport												
Vehicle energy consumption	kWh	3,227,624	2,602,916	1,552,592	1,245,780	517,508	182,166	192,582	224,269	5,490,306	4,255,132	-22%
Vehicle mileage	km	5,603,499	4,624,965	1,925,782	1,567,742	434,338	236,407	185,275	197,352	8,148,894	6,626,465	-19%
All vehicles (average over the year)	No	351	294	96	79	27	35	14	14	488	421	-14%
All vehicles (Dec)	No	346	263	93	70	30	34	14	12	483	379	-22%
Electric (Dec)	No	34	43	5	5	7	9	1	1	47	58	23%
Hybrid (Dec)	No	26	43	17	17	0	0	0	0	43	60	40%
Distance flown	km	3,904,455	5,192,482	3,580,579	3,427,861	2,589,865	3,086,334	5,160,066	5,301,557	15,234,965	17,008,234	12%
Number of flights	No	4,014	4,661	2,905	2,570	1,890	1,803	3,048	2,959	11,857	11,993	1%

Environmental performance indicators

Indicator	Unit	South Eastern Europe		Eastern Europe		South America		Germany		Total		Change
		2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	
CO₂ Emissions												
Total CO ₂ emissions	kgCO ₂ eq	10,830,322	9,556,986	3,017,484	2,533,480	1,510,207	1,304,012	2,736,904	2,232,644	18,094,917	15,627,122	-14%
Scope 1 (road travel, heating inhouse, generators)	kgCO ₂ eq	1,243,646	941,974	828,779	645,835	134,136	46,087	153,959	136,669	2,360,520	1,770,564	-25%
Scope 2 (electricity, district heating)	kgCO ₂ eq	8,644,975	7,336,228	1,341,743	1,066,517	496,210	384,146	381,660	208,341	10,864,587	8,995,232	-17%
Scope 3 (air travel)	kgCO ₂ eq	941,701	1,278,785	846,962	821,128	879,862	873,779	2,201,285	1,887,634	4,869,810	4,861,326	0%
Road travel	kgCO ₂ eq	847,579	683,505	375,259	302,347	129,743	45,850	50,881	59,501	1,403,462	1,091,203	-22%
Flights ²	kgCO ₂ eq	941,701	1,278,785	846,962	821,128	879,862	873,779	2,201,285	1,887,634	4,869,810	4,861,326	0%
Electricity	kgCO ₂ eq	8,161,528	6,992,142	1,236,003	988,497	496,210	384,146	381,660	208,341	10,275,400	8,573,126	-17%
Heating	kgCO ₂ eq	809,877	564,627	534,029	414,298	0	0	95,221	72,565	1,439,127	1,051,491	-27%
Generators	kgCO ₂ eq	69,636	37,927	25,231	7,210	4,394	237	7,857	4,602	107,118	49,977	-53%
Water												
Total water consumption	m ³	28,937	24,997	13,592	9,057	10,840	6,868	11,634	12,263	65,003	53,185	-18%
Indoor water consumption	m ³	24,114	20,865	12,906	7,948	10,118	6,148	11,367	12,128	58,505	47,089	-20%
Outdoor water use (irrigation)	m ³	4,824	4,132	686	1,109	722	720	267	135	6,499	6,096	-6%
Water from public/private water utility	%	99.96%	100%	100%	100%	100%	100%	100%	100%	99.98%	99.97%	
Water from other sources	%	0.04%	0.06%	0%	0%	0%	0%	0%	0%	0.02%	0.03%	
Printing paper												
Total printing paper consumption	kg	65,844	44,375	24,777	17,036	6,508	4,032	3,909	3,524	101,038	68,967	-32%
Paper waste												
Total paper waste	kg	96,885	109,737	48,957	47,369	4,892	2,926	16,385	2,926	167,119	162,958	-2%
Recycling	%	100%	100%	94%	73%	100%	100%	100%	100%	98%	92%	
Landfill	%	0%	0%	6%	27%	0%	0%	0%	0%	2%	8%	

Environmental performance indicators

Indicator	Unit	South Eastern Europe		Eastern Europe		South America		Germany		Total		Change
		2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	
Electronic waste												
Total electronic waste	kg	25,585	120,560	10,763	8,550	100	100	482	1,431	36,930	130,641	254%
Re-use (usable electronic equipment)	%	44%	13%	76%	45%	NA	0%	0%	0%	52%	15%	
Recycling	%	56%	87%	24%	55%	NA	100%	100%	100%	48%	85%	
Suppliers												
New suppliers	No	2	1	0	12	0	0	2	0	4	13	
New green suppliers	No	0	0	0	3	1	1	3	0	4	4	

Source: Collected via the iEMS-Tool (online platform for data collection)

¹ Total staff numbers differ throughout the report, depending on the reference and calculation method.

For the environmental analysis the average staff number over the year is used, as this impacts the resource consumption patterns most. For other purposes the staff number at year-end is used.

² PCB Germany offsets its flight emissions (39,869 kgCO₂eq in 2016 and 59,695 kgCO₂eq in 2017)

Audited: Partially through internal and external audit of the EMS

Development of relative environmental performance

Indicator	Unit	South Eastern Europe		Eastern Europe		South America		Germany		Total		Change
		2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	
Energy												
Relative energy consumption of buildings	kWh/employee	6,648	6,276	8,565	8,558	3,060	2,944	4,816	3,220	6,417	5,909	-8%
	kWh/m ²	208	190	238	242	101	94	169	122	199	183	-8%
	kWh/1000 EUR loan portfolio	6.6	4.9	11.0	7.3	5.2	5.1	31.6	19.3	7.9	5.8	-27%
Electricity from renewable energies	%	34%	33%	48%	47%	55%	55%	69%	73%	41%	40%	
Heating energy from renewable energies	%	3%	9%	0%	0%	-	-	51%	56%	9%	13%	
Transport												
Fuel efficiency	kWh/100km	58	56	81	79	119	77	104	114	67	64	-5%
Share of hybrid and e-cars	%	17%	33%	24%	31%	23%	26%	7%	8%	19%	31%	
Emissions												
Relative total CO ₂ emissions	tCO ₂ /employee	4.30	4.44	3.35	3.62	2.92	3.17	5.60	4.22	4.09	4.12	1%
	tCO ₂ /Million EUR loan portfolio	4.30	3.48	4.28	3.09	4.98	5.52	36.78	25.23	5.02	4.02	-20%
Relative Scope 1 emissions	tCO ₂ /employee	0.49	0.44	0.92	0.93	0.26	0.11	0.31	0.26	0.53	0.47	-12%
Relative Scope 2 emissions	tCO ₂ /employee	3.43	3.41	1.49	1.52	0.96	0.93	0.78	0.39	2.45	2.37	-3%
Relative Scope 3 emissions	tCO ₂ /employee	0.37	0.59	0.94	1.17	1.70	2.12	4.50	3.57	1.10	1.28	17%
Water												
Relative indoor water consumption	m ³ /employee	9.6	9.7	14.3	11.4	19.6	14.9	23.3	22.9	13.2	12.4	-6%
	m ³ /m ²	0.3	0.3	0.4	0.3	0.6	0.5	0.8	0.9	0.4	0.4	-6%
Paper												
Relative printing paper consumption	kg/employee	26.1	20.6	27.5	24.4	12.6	9.8	8.0	6.7	22.8	18.2	-20%
Waste												
Relative paper waste generation	kg/employee	38.4	51.0	54.3	67.7	9.5	7.1	33.5	5.5	37.7	43.0	14%
Relative e-waste generation	kg/employee	10.2	56.0	11.9	12.2	0.2	0.2	1.0	2.7	8.3	34.5	313%

Source: Collected via the iEMS-Tool (online platform for data collection)

Audited: Partially through internal and external audit of the EMS.

CO₂ efficiency of electric vehicles

Vehicle type	realistic fuel consumption kWh/100km	Albania	BiH	Ecuador	Georgia	Kosovo	Macedonia	Moldova	Romania	Serbia	Ukraine	Bulgaria	Colombia
Internal combustion (gasoline/ diesel)	70.3	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5
Electric	20.4	0.0	18.4	6.8	2.4	21.5	14.1	10.1	6.9	15.4	8.3	10.2	4.1
Are E-cars more CO ₂ efficient?		yes	no	yes	yes	no	yes	yes	yes	yes	yes	yes	yes
By how much %?		100%	-5%	61%	86%	-22%	20%	42%	60%	12%	53%	42%	77%

Source: Own calculations; Emission factors based on International Energy Agency for 2015

Audited: No

International principles, standards and memberships

Main international principles and standards the ProCredit institutions follow:

Environmental principles and standards:

- CITES (Convention on International Trade in Endangered Species of Wild Fauna and Flora)
- Convention on Biological Diversity (CBD)
- Convention on the Conservation of European Wildlife and Natural Habitats (Bern Convention)
- Convention on the Conservation of Migratory Species of Wild Animals (Bonn Convention)
- Convention on Wetlands of International Importance (Ramsar Convention)
- Eco-Management and Audit Scheme (EMAS)
- ISO 14001:2015
- IUCN Guidelines on Protected Areas
- World Heritage Convention
- Montreal Protocol

Social principles and standards:

- European Convention on Human Rights (1950)
- IFC/MIGA Joint Policy Statement on Forced Labour and Harmful Child Labour
- ILO Declaration on Fundamental Principles and Rights at Work (1998)
- Universal Declaration of Human Rights (1948)
- UN Convention Against Corruption (2005)

Environmental and social standards:

- IFC Performance Standards
- MIGA's (Multilateral Investment Guarantee Agency) Performance Standards on Social & Environmental Sustainability
- EBRD Performance Requirements

Information security principles and standards:

- 3-D Secure Security Requirements
- ISO 20000-1:2011
- ISO 27001:2013
- PCI DSS
- PCI Card Production
- PCI PIN Security

Quality management standard

- ISO 9001:2015

Exemplary memberships of individual ProCredit banks related to sustainability:

- Protocolo Verde (Banco ProCredit Colombia)
- Protocolo de Finanzas Sostenibles del Ecuador (Banco ProCredit Ecuador)
- Environment Protection Committee - Business Association of Georgia (ProCredit Bank Georgia)
- European Business Network for Corporate Social Responsibility (ProCredit Bank Kosovo)
- UN Global Compact (Banco ProCredit Ecuador)

OUR APPROACH TO CLIENTS

Prudent credit risk management

Portfolio quality indicators

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017
PAR30	3.8%	2.9%	3.3%	2.2%	7.5%	6.8%	0.0%	0.0%	3.9%	2.9%
PAR90	3.2%	2.5%	3.0%	1.7%	6.5%	5.9%	0.0%	0.0%	3.4%	2.5%
Coverage PAR30 ratio	105.6%	111.3%	140.0%	151.9%	67.8%	68.0%	-	-	105.6%	112.1%
Coverage PAR90 ratio	125.5%	132.2%	157.3%	194.7%	77.7%	78.6%	-	-	123.6%	134.1%

Source: Reporting Package Dec 2016, Dec 2017

Audited: Yes

Non performing loan portfolio (NLP)

Indicator	Albania	Bosnia & Herzegovina	Bulgaria	Colombia	Ecuador	Germany	Georgia	Kosovo	Macedonia	Moldova	Romania	Serbia	Ukraine
Country NPL	15.6%	13.9%	15.0%	6.1%	1.9%	2.5%	8.9%	3.9%	9.9%	9.9%	8.2%	17.1%	58.5%
ProCredit Bank's NPL	9.4%	8.0%	2.3%	9.0%	4.2%	0.0%	3.9%	2.7%	2.2%	2.2%	4.8%	2.7%	2.7%

Source: Collected by each PCB individually. Data for the different countries is subject to different definitions and is not updated simultaneously, making the comparison between the countries difficult. However, within the same country, the same definition is applied. The latest available data for each country is presented in the table. The source of each country's NPL figure is the respective central bank.

Audited: No

Environmental & Social Risk Management

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017
Share of volume of outstanding loans by environmental and social risk category										
Not applicable	14.2%	13.6%	2.9%	3.4%	7.7%	5.5%	0.0%	0.1%	11.2%	10.7%
Low	42.6%	41.7%	57.2%	47.7%	66.8%	64.4%	36.4%	34.3%	47.3%	44.1%
Medium	40.0%	41.5%	38.4%	46.4%	22.2%	23.0%	59.1%	63.7%	38.7%	41.9%
High	3.2%	3.2%	1.5%	2.5%	3.2%	7.1%	4.5%	1.9%	2.9%	3.3%
Total loan portfolio	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Share of numbers of outstanding loans by environmental and social risk category										
Not applicable	54.5%	58.0%	29.7%	27.1%	9.1%	8.5%	1.1%	1.7%	48.1%	51.5%
Low	21.0%	19.5%	47.1%	43.0%	66.0%	68.1%	42.7%	36.7%	27.5%	25.3%
Medium	23.7%	21.6%	22.4%	28.6%	22.8%	20.1%	52.8%	59.2%	23.5%	22.2%
High	0.7%	0.9%	0.9%	1.3%	2.1%	3.3%	3.4%	2.5%	0.9%	1.1%
Total loan portfolio	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Compiled from all banks, via questionnaire

Audited: No

Analysis of the portfolio in terms of E&S risks

As at the end of 2017, the volume of our loan portfolio amounted to EUR 3,91m. Due to the distribution across different business activities, the portfolio can be broken down into the following categories with regard to the level of potential environmental and social (E&S) risk:

- Low: 44%
- Medium: 42%
- High: 3%

The remaining 11% of our portfolio consist of loans to private clients, which are defined as having a negligible environmental impact; they are therefore neither subject to in-depth analysis in terms of E&S issues nor to reporting, and are not assigned to an E&S risk category.

In comparison to the previous year, the share of loans classified as carrying a medium level of E&S risk increased from 38% to 41%, which is in line with the business strategy of growing the portfolio in the production and manufacturing sectors. Due to the nature of operations in the production sector, most of the business activities in this area are classified as having a medium potential E&S risk.

For the share of financed activities in the high E&S risk category, we can see an increase of the portfolio in terms of volume (around 20%) compared to last year, but the number of clients classified as posing a high potential environmental and social risk has decreased by 9% to 131 clients. We generally do not reject clients with business activities in potentially high E&S risk sectors outright; instead, we

analyse their E&S performance thoroughly to ensure that negative impacts are mitigated and that the risks they pose do not materialise into environmental or social harm. We expect the share of clients in this risk category to rise in the coming years due to the fact that various production activities belong to the category of high E&S risk.

As at the end of 2017, the activity with the biggest share in the high E&S risk category in our portfolio was *trade in hazardous materials*, which includes trading in chemicals or operating petrol stations. However, compared to the total portfolio, this share is still insignificant. Within the region, its share varies from 2% for Eastern Europe (ProCredit Bank Georgia, ProCredit Bank Moldova and Procredit Bank Ukraine) to 0.1% for ProCredit Bank Germany (South Eastern Europe: 1.6%; South America: 1.18%).

The *chemical production industry* ranks second in terms of volume in the high E&S risk category. However, its share in the overall portfolio for the banks is merely 1% (South Eastern Europe: 0.65%, South America: 1.00%, Eastern Europe: 1.41%, Germany: 0.00%).

In South Eastern Europe, we have a higher share of businesses engaged in the *chemical production industry* due to financing provided to clients of ProCredit Bank Bulgaria. Due to favourable conditions for investments in the manufacture of cosmetics, the bank has started working with businesses in this sector that have been assessed as having the

proper measures for mitigating E&S risk in place. In the banks in South America, we also increased our portfolio in this area in 2017, as we acquired new clients active in the chemical production sector: a large soap manufacturer and a producer of material for the ceramic industry in Ecuador. In the Eastern European ProCredit banks, especially in Ukraine, we work with producers of various cleaning products and with pharmaceutical companies, which made up 1.4% of the total regional portfolio as at December 2017.

Our clients active in the *waste management* sector account for the third largest share in the high environmental and social risk category in terms of volume based on the total outstanding portfolio. Waste management is an activity that we value due to its positive impact on the environment, especially in our countries of operation, where proper waste management is not very common. In fact, if not carried out according to appropriate standards, this activity can actually harm the environment. Therefore, we take a conservative approach towards waste management businesses and only finance companies that respect E&S standards and legal requirements. Currently, the share of this business activity is below 0.50% in each regional portfolio (South Eastern Europe: 0.4%, Eastern Europe: 0.1%, South America: 0.3%).

In 2018, the ProCredit group will continue to be demanding when it comes to our clients' environmental and social practices. We will be focused on carrying out thorough assessments of all our business clients, providing advice

for better management of environmental and social risk, and further improving our internal environmental and social regulations. This approach is in line with our long-term development strategy and with our core values.

Sustainable Finance

Distribution of the loan portfolio by initial size in outstanding principal (in EUR million)

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017
<30k	513.7	363.6	53.8	30.1	103.9	41.5	0.0	0.0	671.4	435.3
30-50k	286.1	257.7	51.6	47.3	70.0	50.9	0.0	0.2	407.7	356.1
50-250k	932.4	1,031.9	305.7	338.2	98.9	101.6	0.4	1.8	1,337.4	1,473.5
250-500k	353.5	453.7	119.7	147.9	14.3	17.9	4.2	4.2	491.7	623.8
500k-1.5m	307.5	448.5	139.4	186.8	14.0	16.5	33.9	32.8	494.9	684.7
>1.5m	127.8	189.1	35.1	70.5	2.1	7.8	35.8	49.5	200.9	317.0
Total	2,520.9	2,744.6	705.4	821.0	303.2	236.3	74.4	88.5	3,603.9	3,890.3

Source: PCH Operational Statistics

Audited: No

Business loan portfolio by sector (in EUR million)

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017
Wholesale and trade	672.0	730.1	244.0	241.3	104.1	82.8	21.0	15.5	1,041.1	1,069.7
Agriculture, forestry and fishing	548.6	545.9	159.2	219.8	29.1	14.5	8.0	8.0	744.9	788.2
Production	475.5	559.1	112.2	155.6	44.5	42.5	37.2	43.4	669.4	800.5
Transportation and storage	146.1	162.4	30.0	26.0	50.3	31.2	0.0	1.0	226.3	220.7
Other economic activities	367.8	395.8	142.5	152.8	55.8	55.0	8.1	20.5	574.1	624.1

Source: Reporting Package Dec 2016, Dec 2017

Audited: Yes

Outstanding number and volume in outstanding principal of green loans

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017
Outstanding volume of business clients (in EUR million)	206.4	313.0	73.8	110.1	13.4	20.2	21.9	31.5	315.5	474.8
Outstanding number of business loans	3,765	3,535	535	897	416	398	13	22	4,729	4,852
Outstanding volume of private clients (in EUR million)	15.1	13.9	0.3	0.5	0.03	-	-	-	15.5	14.3
Outstanding volume of private loans	2,898	2,038	151	124	3	-	-	-	3,052	2,162
Total outstanding volume (in EUR million)	221.5	326.9	74.2	110.6	13.4	20.2	21.9	31.5	331.0	489.1
Share of total loan portfolio	8.8%	11.9%	10.5%	13.5%	4.4%	8.5%	29.4%	35.6%	9.2%	12.6%
Total outstanding number of loans	6,663	5,573	686	1,021	419	398	13	22	7,781	7,014

Source: Reporting Package Dec 2016, Dec 2017

Audited: Yes

Green investment category

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017
Energy Efficiency (EE)										
Total outstanding volume (in EUR million)	142.7	233.3	47.0	70.5	8.0	12.7	1.1	5.6	198.8	322.1
Total outstanding number of loans	4,122	4,851	420	652	270	256	2	9	4,814	5,768
Renewable Energies (RE)										
Total outstanding volume (in EUR million)	17.9	36.7	0.3	3.1	0.04	2.8	20.7	25.9	39.0	68.5
Total outstanding number of loans	230	185	9	20	2	4	11	13	252	222
Green Measures (GR)										
Total outstanding volume (in EUR million)	72.5	73.7	15.3	20.2	5.4	4.7	-	-	93.2	98.5
Total outstanding number of loans	2,494	769	74	117	147	138	-	-	2,715	1,024

Source: Reporting Package Dec 2016, Dec 2017
 Audited: Yes

Performance indicators of green loan portfolio

Indicator	Dec 2016	Dec 2017
PAR 30 for the green loan portfolio	0.59%	0.42%

Source: Reporting Package Dec 2016, Dec 2017
 Audited: Yes

Financed renewable energy projects in 2017

Indicator	South Eastern Europe	Eastern Europe	South America	Germany	Total	Overall total
Number of financed RE Projects in 2017 (capacity ≥ 0.5MW)						
Solar	11	0	1	2	14	37
Hydro	12	0	0	0	12	
Wind	1	0	0	7	8	
Biomass	0	1	1	1	3	
tCO₂ emission savings of financed RE projects (capacity ≥ 0.5MW)						
Solar	10,520	0	464	1,156	12,141	50,481
Hydro	15,333	0	0	0	15,333	
Wind	427	0	0	16,302	16,729	
Biomass	0	803	0	5,475	6,278	
Installed capacity (MW) of financed RE Projects in 2017 (capacity ≥ 0.5MW)						
Solar	19.9	0	1.4	3.9	18.2	67.9
Hydro	20.9	0	0	0	20.9	
Wind	0.5	0	0	20.6	21.1	
Biomass	0	0.6	5	2.2	7.8	
Electricity generated (in MWh) of financed RE Projects in 2017 (capacity ≥ 0.5MW)						
Solar	17,078	0	1,316	2,439	20,833	102,677
Hydro	33,423	0	0	0	33,423	
Wind	845	0	0	34,392	35,237	
Biomass	0	1,632	0	11,551	13,184	

Source: Compiled from all banks via questionnaire. Only the power plants with available information on the electricity generated are included.

Audited: No

Data privacy and information security

Client complaints

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Data protection related complaints										
Number of clients complaints received	8	7	5	0	69	0	0	0	82	7
Number of these complaints that resulted (or highly likely to result) in a court case	0	0	0	0	8	0	0	0	8	0
Total amount paid in fines or settlements agreed with the client in relation to complaints received (EUR)	0	0	0	0	0	0	0	0	0	0

Source: Compliance reporting package Dec 2016, Dec 2017

Audited: No

OUR APPROACH TO STAFF

Ethical values and working environment

Diversity of governance bodies and employees

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017
Total staff number¹	2,304	1,827	790	653	496	338	521	566	4,111	3,384
Women	63%	63%	66%	64%	56%	56%	48%	47%	61%	60%
Men	37%	37%	34%	36%	44%	44%	52%	53%	39%	40%
Supervisory Board²										
Number	22	24	11	13	11	10	9	8	35	38
Women	27%	25%	27%	31%	55%	50%	22%	13%	34%	34%
Men	73%	75%	73%	69%	45%	50%	78%	88%	66%	66%
Age <30	0%	4%	0%	8%	0%	0%	0%	0%	0%	3%
Age 30-50	82%	67%	64%	54%	45%	50%	56%	38%	69%	63%
Age >50	18%	29%	36%	38%	55%	50%	44%	63%	31%	34%
Management Board										
Number	20	20	10	10	4	3	9	8	43	41
Women	75%	60%	50%	50%	0%	33%	22%	25%	51%	49%
Men	25%	40%	50%	50%	100%	67%	78%	75%	49%	51%
Age <30	5%	0%	10%	10%	0%	33%	0%	0%	5%	5%
Age 30-50	85%	95%	90%	90%	100%	67%	44%	50%	79%	83%
Age >50	10%	5%	0%	0%	0%	0%	56%	50%	16%	12%

¹ Total staff including management board members and staff in unconsolidated entities

² In total number all members are counted only once, but persons who are supervisory board members in more than one region are included in all the regions in which they serve

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
Middle Management										
Number	110	104	37	31	40	31	68	69	255	235
Women	41%	48%	59%	45%	48%	58%	47%	48%	46%	49%
Men	59%	52%	41%	55%	53%	42%	53%	52%	54%	51%
Age <30	8%	9%	0%	3%	0%	0%	0%	0%	4%	4%
Age 30-50	90%	89%	95%	97%	100%	100%	87%	83%	91%	90%
Age >50	2%	2%	5%	0%	0%	0%	13%	17%	5%	6%
Specialists										
Number	2,174	1,703	743	612	452	304	444	489	3,813	3,108
Women	64%	64%	67%	65%	58%	56%	48%	48%	62%	61%
Men	36%	36%	33%	35%	42%	44%	52%	52%	38%	39%
Age <30	22%	20%	30%	25%	41%	39%	22%	24%	26%	24%
Age 30-50	76%	77%	68%	72%	58%	60%	71%	70%	72%	74%
Age >50	2%	2%	2%	3%	1%	2%	7%	6%	2%	3%

Source: HR data bases

Audited: No

Fair recruiter and employer

Information on employees

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017
Permanent / full-time										
Number of women	1,386	1,101	524	417	276	183	191	222	2,377	1,923
Number of men	765	637	266	235	209	142	214	251	1,454	1,265
Permanent / part-time										
Number of women	1	0	0	1	0	0	25	29	26	30
Number of men	0	0	0	0	0	0	13	13	13	13
Temporary / full-time										
Number of women	71	49	0	0	3	7	29	15	103	71
Number of men	81	40	0	0	8	6	43	31	132	77
Temporary / part-time										
Number of women	0	0	0	0	0	0	4	2	4	2
Number of men	0	0	0	0	0	0	2	3	2	3

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Annual total compensation ratio (management board members included)	3.6 - 9.7	3.5 - 8.4	4.2 - 11.5	5.5 - 8.5	4.8 - 5.4	4.1 - 5.5	3.0 - 4.6	2.2 - 5.4	3.0 - 11.5	2.2 - 8.5
Proportion of management board members hired from the local community	95%	100%	100%	100%	50%	67%	78%	75%	88%	88%

Source: HR data bases

Audited: No

Staff development

Information on staff training

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Average hours of training per year per employee¹										
Total	124	160	124	154	106	209	19	33	117	142
Women	114	140	105	144	101	171	18	30	106	129
Men	140	193	160	172	113	257	19	36	134	162
Management board	121	135	149	74	164	247	12	15	110	105
Middle management	332	196	407	267	198	87	17	39	268	145
Specialist	113	158	111	150	98	221	19	33	107	143
ProCredit Onboarding Process										
Number of ProCredit Onboarding Process graduates	111	87	22	22	58	19	0	0	191	128
ProCredit Onboarding Process graduates of total staff	20%	23%	21%	21%	23%	29%	0%	0%	22%	24%
ProCredit Academy										
Number of total graduates from Banker and Management Academies and current participants	295	319	126	126	106	82	23	24	550	551
Employee training on human rights policies or procedures										
Total number of hours in Code of Conduct training	37,824	19,678	7,186	5,880	7,266	3,722	844	1,861	53,120	31,141
Investment in training										
Annual investment in employee training (in EUR million)									8.74	6.94

¹ 2016 training data for Quipu is missing

Source: HR data bases

Audited: No



GRI CONTENT INDEX

GRI CONTENT INDEX

General information

Indicator/ Material aspect	Description	Location/Comment
General company information		
Disclosure 102-1	Name of the organisation	ProCredit group at a glance > page 4
Disclosure 102-2	Activities, brands, products, and services	ProCredit group at a glance > page 4
Disclosure 102-3	Location of headquarters	ProCredit group at a glance > page 6
Disclosure 102-4	Location of operations	ProCredit group at a glance > page 6
Disclosure 102-5	Ownership and legal form	ProCredit group at a glance > page 5 ; Corporate governance > page 23ff
Disclosure 102-6	Markets served	ProCredit group at a glance > page 4ff
Disclosure 102-7	Scale of the organisation	ProCredit group at a glance > page 6 and > page 8 ; > Annual Report
Disclosure 102-10	Significant changes to the organisation and its supply chain	ProCredit group at a glance > page 7
Disclosure 102-12	External initiatives	ProCredit's sustainability performance indicators > page 76
Disclosure 102-13	Membership of associations	ProCredit's sustainability performance indicators > page 76
General sustainability reporting information		
Disclosure 102-40	List of stakeholder groups	Stakeholder engagement > page 15 ; ProCredit's sustainability performance indicators > page 68
Disclosure 102-42	Identifying and selecting stakeholders	Stakeholder engagement > page 15f
Disclosure 102-43	Approach to stakeholder engagement	Stakeholder engagement > page 15f
Disclosure 102-44	Key topics and concerns raised	Reporting approach > page 15ff ; Identifying key material topics > page 69

Indicator/ Material aspect	Description	Location/Comment
General sustainability reporting information		
Disclosure 102-45	Entities included in the consolidated financial statements	<p>Scope of Group Impact Report 2017: ProCredit Bank (Bulgaria) E.A.D., ProCredit Holding AG Et Co. KGaA (Germany), ProCredit Bank AG (Germany), ProCredit Academy GmbH (Germany), Quipu GmbH (Germany), ProCredit Bank S.A.(Romania), ProCredit Bank Sh.a (Albania), ProCredit Bank d.d. (Bosnia and Herzegovina), Banco ProCredit Colombia S.A. (Colombia), Banco ProCredit S.A. (Ecuador), Fideicomiso Primera Titularización de Cartera Comercial Pymes ProCredit (Ecuador, in the report included as part of the ProCredit bank in Ecuador), JSC ProCredit Bank (Georgia), ProCredit Bank Sh.a (Kosovo), ProCredit Bank A.D. (Macedonia), BC ProCredit Bank (Moldova), ProCredit Bank a.d. Beograd (Serbia), PC Finance II B.V. (The Netherlands, in the report included as part of the ProCredit bank in Serbia), JSC ProCredit Bank (Ukraine).</p> <p>Excluded from the Group Impact Report (due to discontinued operations or Special Purpose Vehicle with no employees), but included in the Annual Report 2017: Banco ProCredit S.A. (El Salvador). ProCredit Regional Academy Eastern Europe (Macedonia), Administración y Recuperación de Cartera Michoacán S. A. de C. V., SOFOM, E. N. R (Mexico, in GIR included for key financial and gross loan portfolio figures), Banco ProCredit S.A. (Nicaragua).</p> <p>The details of each institutions can be found in the > Annual Report 2017.</p>
Disclosure 102-46	Defining report content and topic boundaries	Identifying key material topics > page 17
Disclosure 102-47	List of material topics	Identifying key material topics > page 16f
Disclosure 102-48	Restatements of information	This is the first Impact Report based on GRI Standards; therefore, no information has been restated.
Disclosure 102-49	Changes in reporting	This is the first Impact Report based on GRI Standards; therefore, there are no changes to report.
Disclosure 102-50	Reporting period	Financial year 2017; figures for the financial year 2016 are also included for comparison.
Disclosure 102-51	Date of most recent report	Previous reports on environmental performance, human resource management, compliance, etc. can be downloaded from the > ProCredit Holding website
Disclosure 102-52	Reporting cycle	Reporting approach > page 14
Disclosure 102-53	Contact point for questions regarding the report	Borislav Kostadinov: Borislav.Kostadinov@procredit-group.com
Disclosure 102-54	Claims of reporting in accordance with the GRI Standards	This report was prepared in accordance with the GRI Standards: Core option.
Disclosure 102-55	GRI content index	GRI Content Index > page 89ff
Disclosure 102-56	External assurance	The report is not externally assured.
Disclosure 103-1	Explanation of the material topic and its boundary	Reporting approach > page 14ff ; see each section that relates to the material aspects.
Disclosure 103-2	The management approach and its components	Sustainability and the ProCredit group > page 14ff ; see each section that relates to the material aspects.
Disclosure 103-3	Evaluation of the management approach	Sustainability and the ProCredit group > page 14ff ; see each section that relates to the material aspects.

Indicator/ Material aspect	Description	Location/Comment
Economic development		
Disclosure 202-2	Proportion of senior management hired from the local community	The ProCredit Management Academy > page 62 ; ProCredit's sustainability performance indicators > page 87 Senior management is defined as the management board members. Local refers to the region, e.g. Albania and Kosovo as neighbouring countries in the Balkans are in the same region. Managers with permanent residency are also defined as being part of the local community. Significant locations are defined as all subsidiaries of ProCredit Holding that fall within the scope of this report.
Disclosure 203-2	Significant indirect economic impacts	Economic development > page 20f
Corporate governance		
Disclosure 102-11	Precautionary principle or approach	Whenever new services or processes are defined, a New Risk Assessment is conducted. If the services or processes are environmentally relevant, the Environmental Coordinator or Environmental Unit of each institution is involved in this assessment to ensure that the environmental impact is analysed and considered.
Disclosure 102-14	Statement from senior decision-maker	Message from the management > page 3
Disclosure 102-18	Governance structure	ProCredit group at a glance > page 5f ; Corporate governance > page 23ff
Disclosure 102-35	Remuneration policies	Corporate governance > page 25 ; > Annual Report 2017
Disclosure 201-1	Direct economic value generated and distributed	> Annual Report 2017
Compliance and banking regulation		
Disclosure 206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	Compliance and banking regulation > page 28 ; ProCredit's sustainability performance indicators > page 70 Non-compliance with laws and regulations has not been identified.
Disclosure 307-1	Non-compliance with environmental laws and regulations	Compliance and banking regulation > page 28 ; ProCredit's sustainability performance indicators > page 70 Non-compliance with laws and regulations has not been identified.
Disclosure 419-1	Non-compliance with laws and regulations in the social and economic area	Compliance and banking regulation > page 28 ; ProCredit's sustainability performance indicators > page 70 Non-compliance with laws and regulations has not been identified. Significant fines and non-monetary sanctions are defined as those in amounts above EUR 100k.
Financial crime prevention		
Disclosure 205-1	Operations assessed for risks related to corruption	Financial crime prevention > page 29f ; all transactions are screened for financial crime indicators.
Disclosure 205-2	Communication and training about anti-corruption policies and procedures	Financial crime prevention > page 29 ; ProCredit's sustainability performance indicators > page 71

Indicator/ Material aspect	Description	Location/Comment
Technology and innovation		
Own disclosure 1	Automatisation of transactions	Technology and innovation > page 31; ProCredit's sustainability performance indicators > page 65
Internal environmental management		
Disclosure 102-9	Supply chain	The supply chain for the group primarily consists of suppliers of office materials and equipment, banking machinery and cars.
Disclosure 302-1	Energy consumption within the organisation	Environmental management > page 33ff; ProCredit's sustainability performance indicators > page 73ff
Disclosure 302-2	Energy consumption outside of the organisation	Environmental management > page 33ff; ProCredit's sustainability performance indicators > page 73ff Source of the conversion factors is the International Energy Agency.
Disclosure 302-3	Energy intensity	Environmental management > page 33ff; ProCredit's sustainability performance indicators > page 73ff
Disclosure 302-4	Reduction of energy consumption	Environmental management > page 33ff; ProCredit's sustainability performance indicators > page 73ff
Disclosure 303-1	Water withdrawal by source	Environmental management > page 33ff; ProCredit's sustainability performance indicators > page 73ff
Disclosure 305-1	Direct (Scope 1) GHG emissions	Environmental management > page 33ff; ProCredit's sustainability performance indicators > page 73ff
Disclosure 305-2	Energy indirect (Scope 2) GHG emissions	Environmental management > page 33ff; ProCredit's sustainability performance indicators > page 73ff
Disclosure 305-3	Other indirect (Scope 3) GHG emissions	Environmental management > page 33ff; ProCredit's sustainability performance indicators > page 73ff
Disclosure 305-4	GHG emissions intensity	Environmental management > page 33ff; ProCredit's sustainability performance indicators > page 73ff
Disclosure 305-5	Reduction of GHG emissions	Environmental management > page 33ff; ProCredit's sustainability performance indicators > page 73ff
Disclosure 306-2	Waste by type and disposal method	Environmental management > page 33ff; ProCredit's sustainability performance indicators > page 73ff
Disclosure 308-1	New suppliers that were screened using environmental criteria	All ProCredit institutions subject potential suppliers to a screening process to ensure that they meet all of our environmental and social criteria.
Disclosure 414-1	New suppliers that were screened using social criteria	All ProCredit institutions subject potential suppliers to a screening process to ensure that they meet all of our environmental and social criteria.
Reliable and stable partnerships		
Own disclosure 2	Number of business clients and number of loans > EUR 30,000	Reliable and stable partnerships > page 40; ProCredit's sustainability performance indicators > page 64

Indicator/ Material aspect	Description	Location/Comment
Transparent services		
Disclosure 417-1	Requirements for product and service information and labelling	Transparent services > page 42f
Disclosure 417-2	Incidents of non-compliance concerning product and service information and labelling	Compliance and banking regulations > page 28; ProCredit's sustainability performance indicators > page 70 Non-compliance with laws and regulations has not been identified.
Disclosure 417-3	Incidents of non-compliance concerning marketing communications	Compliance and banking regulations > page 28; ProCredit's sustainability performance indicators > page 70 Non-compliance with laws and regulations has not been identified.
G4 - FS15	Fair design and sale of financial products	Transparent services > page 42f
Prudent credit risk management		
Disclosure 408-1	Operations and suppliers at significant risk for incidents of child labour	The activities of all clients are reviewed for risk for incidents of child labour; clients involved in child labour cannot be clients of ProCredit.
Disclosure 409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour	The activities of all clients are reviewed for risk for incidents of forced or compulsory labour; clients involved in forced or compulsory labour cannot be clients of ProCredit.
Disclosure 412-1	Operations that have been subject to human rights reviews or impact assessments	Prudent credit-risk management > page 44f; all business clients are subject to a human rights review (social assessment).
Disclosure 412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	All business clients undergo human rights screening and sign in their loan contract that they are in compliance with local laws and our Exclusion List; significant investment agreements are defined as those in amounts above EUR 30,000.
G4 - FS5	Interactions regarding environmental and social risks and opportunities	Prudent credit risk management > page 44f
G4 - FS10	E&S issues of clients	Prudent credit risk management > page 44f; ProCredit's sustainability performance indicators > page 78f We engage with all business clients on social issues, and, for all business clients classified as having medium or high E&S risk, we also engage with them on environmental issues.
G4 - FS3	Compliance with environmental and social requirements	Prudent credit risk management > page 44f; ProCredit's sustainability performance indicators > page 78f
G4 - FS4	Staff competency to implement environmental and social policies	Prudent credit risk management > page 44f
G4 - FS9	Audit of E&S risk policies	Prudent credit risk management > page 44f The implementation of the E&S policy is audited during the internal credit risk audit and also when the EMS is audited internally.

Indicator/ Material aspect	Description	Location/Comment
Sustainable finance		
G4 - FS7	Social capital	Sustainable finance > page 47ff; ProCredit's sustainability performance indicators > page 80ff
G4 - FS8	Share of green products	Sustainable finance > page 47ff; ProCredit's sustainability performance indicators > page 81ff
G4 - FS6	Portfolio in business lines	Sustainable finance > page 47ff; ProCredit's sustainability performance indicators > page 80ff
Data privacy and information security		
Disclosure 418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Data privacy and information security > page 50f; ProCredit's sustainability performance indicators > page 70
Ethical values and working environment		
Disclosure 412-2	Employee training on human rights policies or procedures	Ethical values and working environment > page 54f; ProCredit's sustainability performance indicators > page 88 (Code of Conduct training)
Disclosure 102-16	Values, principles, standards, and norms of behaviour	Ethical values and working environment > page 54f; Corporate governance > page 23ff
Disclosure 405-1	Diversity of governance bodies and employees	Our approach to staff > page 52ff; ProCredit's sustainability performance indicators > page 85f
Fair recruiter and employer		
Disclosure 102-41	Collective bargaining agreements	All employees of PCB Bosnia and 227 employees of PCB Romania are covered by collective bargaining agreements.
Disclosure 102-8	Information on employees and other workers	Our approach to staff > page 52ff; ProCredit's sustainability performance indicators > page 85ff
Staff development		
Disclosure 404-1	Average hours of training per year per employee	Staff development > page 60ff; ProCredit's sustainability performance indicators > page 88
Disclosure 404-3	Percentage of employees receiving regular performance and career development reviews	Staff development > page 60ff



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